



Hendricks
Regional Health

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023 AND 2022

CPAs / ADVISORS



HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Hendricks Regional Health (Hendricks), a component unit of Hendricks County, which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements. We have also audited Hendricks' statements of fiduciary net position as of December 31, 2023 and 2022 and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hendricks as of December 31, 2023 and 2022, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hendricks and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hendricks' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hendricks' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024 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 solely 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 the effectiveness of Hendricks' 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
June 28, 2024

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

This section of Hendricks Regional Health's (Hendricks') annual financial statements presents background information and management's discussion and analysis (MD&A) of Hendricks' financial performance during the year ended December 31, 2023. This MD&A includes 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' financial statements that follow this MD&A.

Financial Highlights

- Hendricks' net position increased approximately \$41,573,000 or 8.4% in 2023.
- Hendricks reported operating income of approximately \$12,301,000 for 2023, representing a decrease of \$1,695,000 in comparison to the 2022 results.
- Hendricks continued its investment in facilities and equipment in 2023 by adding approximately \$21,966,000 in gross property and equipment including intangible right-to-use assets. Hendricks disposed of capital assets with a net book value of \$22,000 during 2023. These items combined with depreciation and amortization expense of \$32,582,000 resulted in net capital assets including intangible right-to-use assets decreasing \$10,638,000 from the prior year.
- Assets whose use is limited, including current portion, increased approximately \$35,001,000 primarily as a result of investment returns.
- During 2023 and 2022, Hendricks recognized approximately \$481,882,000 and \$451,959,000, respectively, of patient service revenue related to long-term care.

Using This Annual Report

Hendricks' financial statements consist of a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the financial activities and the financial position of Hendricks. The statement of net position 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 statement of revenues, expenses and changes in net position. The purpose of the 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, 2023 AND 2022

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

The statement of net position 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.

Statements of Net Position

The significant changes in Hendricks' total assets and deferred outflows were in investments and assets whose use is limited which increased approximately \$28,896,000 in 2023 compared to 2022. The total assets and deferred outflows increase of \$19,577,000 in 2023 was 2.4% from 2022. Capital assets, prior to depreciation and amortization, increased \$21,966,000 while accumulated depreciation and amortization increased \$32,582,000 for a net decrease in capital assets of \$10,638,000 after asset disposals of \$22,000 in 2023. Total liabilities decreased by \$22,673,000, mainly related to a decrease in long-term liabilities, (including current portions) of \$19,383,000 for long-term debt, lease liabilities, and subscription-based information technology arrangements liabilities in 2023. Net position increased by \$41,573,000 in 2023 compared to 2022. The increase relates primarily to investment gain. The following is a summary of the statements of net position for Hendricks.

	2023	2022	Change 2023 - 2022	2021	Change 2022 - 2021
Assets					
Current assets	\$ 203,861,915	\$ 199,878,259	\$ 3,983,656	\$ 218,591,952	\$ (18,713,693)
Capital assets, net	268,433,666	279,071,617	(10,637,951)	290,077,777	(11,006,160)
Assets whose use is limited, net	343,862,880	309,192,300	34,670,580	321,398,909	(12,206,609)
Other assets	5,610,323	6,158,322	(547,999)	16,266,010	(10,107,688)
Total assets	821,768,784	794,300,498	27,468,286	846,334,648	(52,034,150)
Deferred outflows	17,927,311	25,818,589	(7,891,278)	13,515,476	12,303,113
Total assets and deferred outflows	\$ 839,696,095	\$ 820,119,087	\$ 19,577,008	\$ 859,850,124	\$ (39,731,037)
Liabilities					
Current liabilities	\$ 170,440,923	\$ 172,536,378	\$ (2,095,455)	\$ 179,336,461	\$ (6,800,083)
Long-term liabilities	114,738,553	135,316,099	(20,577,546)	144,114,420	(8,798,321)
Total liabilities	285,179,476	307,852,477	(22,673,001)	323,450,881	(15,598,404)
Deferred inflows	15,378,290	14,700,860	677,430	18,514,799	(3,813,939)
Total liabilities and deferred inflows	300,557,766	322,553,337	(21,995,571)	341,965,680	(19,412,343)
Net position					
Net investment in capital assets	140,065,742	138,146,179	1,919,563	135,949,012	2,197,167
Restricted	16,520,381	16,074,060	446,321	15,944,874	129,186
Unrestricted	382,552,206	343,345,511	39,206,695	365,990,558	(22,645,047)
Total net position	539,138,329	497,565,750	41,572,579	517,884,444	(20,318,694)
Total liabilities, deferred inflows and net position	\$ 839,696,095	\$ 820,119,087	\$ 19,577,008	\$ 859,850,124	\$ (39,731,037)

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

Total assets and deferred outflows in 2022 compared to 2021 decreased approximately \$39,731,000. The majority of the change was in assets whose use is limited which decreased approximately 12,207,000 in 2022 from 2021. Net capital assets decreased \$11,006,000 in 2022 from 2021 as a result of depreciation and amortization and asset disposals exceeding capital purchases. Current liabilities in 2022 decreased \$6,800,000. Hendricks' net position in 2022 decreased \$20,319,000 compared to 2021 based on investment losses.

Statements of Revenues, Expenses and Changes in Net Position

Hendricks' performance in 2023 showed an overall positive return on equity (based on end of year net position) of 7.7% compared to a negative 4.1% in 2022. Total operating revenue increased \$56,370,000 as net patient service revenue increased \$53,962,000 in 2023 over 2022. Expenses increased by \$58,065,000 between 2022 and 2023 primarily from salaries, wages and benefits along with other operating expenses related to long-term care services. Nonoperating revenue (expense) increased by \$63,672,000 due to investment income of \$34,066,000 in 2023 compared to investment loss of \$34,544,000 in 2022.

	2023	2022	Change 2023 - 2022	2021	Change 2022 - 2021
Operating revenue					
Net patient service revenue	\$ 929,294,018	\$ 875,332,113	\$ 53,961,905	\$ 797,087,892	\$ 78,244,221
Other operating revenue	14,948,037	12,540,344	2,407,693	11,670,994	869,350
Total operating revenue	944,242,055	887,872,457	56,369,598	808,758,886	79,113,571
Operating expenses					
Salaries and benefits	257,564,394	236,242,292	21,322,102	209,487,455	26,754,837
Medical supplies and drugs	97,335,831	90,455,644	6,880,187	83,306,640	7,149,004
Purchased services	327,062,526	328,832,346	(1,769,820)	307,998,617	20,833,729
Depreciation and amortization	32,582,211	33,249,320	(667,109)	32,058,786	1,190,534
Other operating expenses	217,396,252	185,097,016	32,299,236	150,956,419	34,140,597
Total operating expenses	931,941,214	873,876,618	58,064,596	783,807,917	90,068,701
Operating income (loss)	12,300,841	13,995,839	(1,694,998)	24,950,969	(10,955,130)
Nonoperating revenue (expense)					
Investment return and other	34,065,946	(34,544,045)	68,609,991	22,963,658	(57,507,703)
COVID-19 grant funds	300,000	5,847,304	(5,547,304)	19,874,669	(14,027,365)
Interest expense	(4,641,395)	(5,250,589)	609,194	(5,515,547)	264,958
Total nonoperating revenue (expense), net	29,724,551	(33,947,330)	63,671,881	37,322,780	(71,270,110)
Change in net position before other items	42,025,392	(19,951,491)	61,976,883	62,273,749	(82,225,240)
Other items					
Dividends to non-controlling interest	(397,637)	(367,203)	(30,434)	(461,506)	94,303
Redemption of non-controlling shares	(55,176)	-0-	(55,176)	(204,624)	204,624
Change in net position	41,572,579	(20,318,694)	61,891,273	61,607,619	(81,926,313)
Net position					
Beginning of year	497,565,750	517,884,444	(20,318,694)	456,276,825	61,607,619
End of year	\$ 539,138,329	\$ 497,565,750	\$ 41,572,579	\$ 517,884,444	\$ (20,318,694)

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

Total operating revenue increased approximately \$79,114,000 as net patient service revenue increased \$78,244,000 in 2022 over 2021. Expenses increased by \$90,069,000 between 2021 and 2022 primarily from salaries, wages and benefits along with purchased services. Nonoperating revenue (expense) decreased by \$71,270,000 due to investment loss of \$34,544,000 in 2022 compared to investment income of \$22,964,000 in 2021. Additionally, COVID-19 grant funds were \$5,847,000 in 2022 compared to \$19,875,000 in 2021.

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 decreased approximately \$14,871,000 in 2023. This represents a change of \$1,695,000 compared to the 2022 decrease of \$13,176,000. Operating activities generated cash of \$41,711,000 during 2023 compared to \$31,222,000 in 2022. Non-capital financing activities, comprised entirely of COVID-19 grant funds, increased cash and cash equivalents by \$300,000 in 2023 compared to \$5,847,000 in 2022. Capital and related financing decreased cash and cash equivalents by \$60,794,000 during 2023 compared to a decrease of \$28,920,000 in 2022, mainly as the result of expenditures for property and equipment additions. Investing activities increased cash and cash equivalents by \$3,912,000 in 2023 compared to a decrease of \$21,324,000 in 2022. These figures represent market returns coupled with the results of investment sales and purchases.

	2023	2022	Change 2023 - 2022	2021	Change 2022 - 2021
Cash flow from activities					
Operating	\$ 41,710,546	\$ 31,221,770	\$ 10,488,776	\$ 62,910,472	\$ (31,688,702)
Non-capital financing activities	300,000	5,847,304	(5,547,304)	2,771,381	3,075,923
Capital and related financing	(60,793,641)	(28,920,351)	(31,873,290)	(39,581,053)	10,660,702
Investing	3,912,305	(21,324,385)	25,236,690	(56,344,132)	35,019,747
Change in cash and cash equivalents	\$ (14,870,790)	\$ (13,175,662)	\$ (1,695,128)	\$ (30,243,332)	\$ 17,067,670

Cash flows from operating activities in 2022 were approximately \$31,689,000 less than 2021. Cash flows from non-capital financing activities in 2022 were \$3,076,000 more than 2021. Cash flows from capital and related financing activities in 2022 were \$10,661,000 more than 2021. Finally, cash flows from investing activities in 2022 were \$35,020,000 more than 2021. Cash and cash equivalents in total decreased \$13,176,000 in 2022.

Sources of Revenue

During 2023, 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 57% of gross revenues of operations in 2023 but only 38% of Hendricks' net patient service revenues.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

The following is a table of major sources of gross patient revenues for 2023:

Payor	% of Gross Revenues
Medicare	45%
Anthem/Blue Cross	20%
Commercial and other	21%
Medicaid	12%
Self-Pay	2%
Total	100%

Outpatient services represented approximately 81% and 80% of acute care gross patient revenue for 2023 and 2022, respectively.

Capital Assets

During 2023, Hendricks' net capital assets decreased by approximately \$10,638,000 compared to a decrease of \$11,006,000 in 2022. The majority of the current year decrease was the result depreciation and amortization outpacing additions to capital assets.

	2023	2022	Change 2023 - 2022	2021	Change 2022 - 2021
Non-depreciable capital assets	\$ 26,504,502	\$ 26,853,701	\$ (349,199)	\$22,849,486	\$ 4,004,215
Depreciable capital assets	500,825,950	482,780,160	18,045,790	467,112,291	15,667,869
Intangible right-to-use assets	75,805,510	71,656,775	4,148,735	69,131,412	2,525,363
Total capital assets	603,135,962	581,290,636	21,845,326	559,093,189	22,197,447
Accumulated depreciation	(297,685,820)	(272,968,585)	(24,717,235)	(246,653,742)	(26,314,843)
Accumulated amortization	(37,016,476)	(29,250,434)	(7,766,042)	(22,361,670)	(6,888,764)
Capital assets, net	\$ 268,433,666	\$ 279,071,617	\$ (10,637,951)	\$ 290,077,777	\$ (11,006,160)

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 financial statements.

Debt

Total long-term debt (including current portion) decreased by approximately \$9,259,000 to \$88,540,000 during 2023 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 financial statements.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2023 AND 2022

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 statement of fiduciary net position and a statement of changes in fiduciary net position. The accounting for fiduciary funds is much like that used for proprietary funds. 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 statements of fiduciary net position and the statements of changes in fiduciary net position can be found on pages 9 and 10, respectively, of this report.

Economic Outlook

Management believes that the health care industry's and Hendricks' operating margins will continue to be under pressure due to a variety of factors including, but not limited to, uncertainty regarding health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of 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 a challenging reimbursement environment and 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: Senior Vice President of Finance/CFO), at PO Box 409, Danville, IN, 46122.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and cash equivalents	\$ 19,998,302	\$ 33,611,755
Investments	44,391,061	50,495,337
Patient accounts receivable, less allowance for uncollectible accounts of \$40,416,000 in 2023 and \$42,512,000 in 2022	84,754,645	72,846,527
Inventories	5,215,099	4,940,544
Other current assets	40,132,808	28,944,096
Current portion of assets whose use is limited	9,370,000	9,040,000
Total current assets	203,861,915	199,878,259
Assets whose use is limited		
Board designated funded depreciation investments	330,370,625	300,075,101
Held by trustee	15,590,737	15,089,240
Other board designated investments	7,271,518	3,067,959
Total assets whose use is limited	353,232,880	318,232,300
Current portion	(9,370,000)	(9,040,000)
Noncurrent assets whose use is limited	343,862,880	309,192,300
Capital assets, net	268,433,666	279,071,617
Other assets		
Lease receivables, net of current portion	4,544,830	4,877,751
Other	1,065,493	1,280,571
Total other assets	5,610,323	6,158,322
Total assets	821,768,784	794,300,498
Deferred outflows	17,927,311	25,818,589
Total assets and deferred outflows	\$ 839,696,095	\$ 820,119,087

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF NET POSITION DECEMBER 31, 2023 AND 2022

	2023	2022
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current liabilities		
Current portion of long-term debt	\$ 9,370,000	\$ 9,040,000
Current portion of lease liability	2,410,080	1,680,933
Current portion of SBITA liability	5,624,692	5,488,807
Line of credit	-0-	22,400,000
Accounts payable	50,717,283	41,117,430
Accrued salaries and related liabilities	23,967,155	19,759,336
Accrued expenses and other current liabilities	74,640,994	67,759,057
Accrued interest	1,235,188	1,448,171
Medicare accelerated and advanced payments	-0-	530,946
Estimated third-party settlements	2,475,531	3,311,698
Total current liabilities	170,440,923	172,536,378
Long-term liabilities		
Long-term debt, net of current portion	79,169,580	88,758,712
Long-term lease liability, net of current portion	4,292,213	2,830,935
Long-term SBITA liability, net of current portion	27,501,359	33,126,051
Pension liability	3,775,401	10,600,401
Total long-term liabilities	114,738,553	135,316,099
Total liabilities	285,179,476	307,852,477
Deferred inflows	15,378,290	14,700,860
Total liabilities and deferred inflows	300,557,766	322,553,337
Net position		
Net investment in capital assets	140,065,742	138,146,179
Restricted		
Held by trustee	15,590,737	15,089,240
Non-expendable	929,644	984,820
Total restricted	16,520,381	16,074,060
Unrestricted	382,552,206	343,345,511
Total net position	539,138,329	497,565,750
Total liabilities, deferred inflows and net position	\$ 839,696,095	\$ 820,119,087

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Operating revenue		
Net patient service revenue	\$ 929,294,018	\$ 875,332,113
Other operating revenue	14,948,037	12,540,344
Total operating revenue	944,242,055	887,872,457
Operating expenses		
Salaries and wages	206,390,928	189,270,935
Employee benefits	51,173,466	46,971,357
Professional medical fees	4,073,214	3,032,471
Other professional fees	10,327,600	9,738,229
Medical and surgical supplies	52,995,024	53,832,787
Drugs and intravenous solutions	44,340,807	36,622,857
Food	13,028,559	11,373,358
Purchased services	327,062,526	328,832,346
Equipment rental	2,525,877	3,012,748
HAF and HIP program assessments	16,514,921	14,676,164
Telephone and utilities	26,274,546	17,816,569
Depreciation and amortization	32,582,211	33,249,320
Insurance	6,632,806	10,777,309
Facility and equipment leases	51,017,139	49,294,837
Other supplies and expenses	87,001,590	65,375,331
Total operating expenses	931,941,214	873,876,618
Operating income	12,300,841	13,995,839
Nonoperating revenue (expense)		
Investment return (loss) and other	34,065,946	(34,544,045)
COVID-19 grant funds	300,000	5,847,304
Interest expense	(4,641,395)	(5,250,589)
Total nonoperating revenue (expense), net	29,724,551	(33,947,330)
Change in net position before other items	42,025,392	(19,951,491)
Other items		
Dividends to non-controlling interest	(397,637)	(367,203)
Redemption of non-controlling shares	(55,176)	-0-
Change in net position	41,572,579	(20,318,694)
Net position		
Beginning of year	497,565,750	517,884,444
End of year	\$ 539,138,329	\$ 497,565,750

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Operating activities		
Cash received from patient services	\$ 916,018,787	\$ 864,100,484
Cash paid for salaries, wages and benefits	(251,612,867)	(232,482,729)
Cash paid to vendors and suppliers	(637,643,411)	(612,936,329)
Other receipts, net	14,948,037	12,540,344
Net cash flows from operating activities	41,710,546	31,221,770
Non-capital financing activities		
COVID-19 grant funds	300,000	5,847,304
Net cash flows from non-capital financing activities	300,000	5,847,304
Capital and related financing activities		
Acquisition and construction of capital assets	(16,621,344)	(19,371,075)
Dividends to non-controlling interest	(397,637)	(367,203)
Redemption of non-controlling shares	(55,176)	-0-
Loss on disposal of property and equipment	22,011	194,474
Interest on long-term debt	(3,536,322)	(3,786,737)
Interest on right-to-use liabilities	(1,318,056)	(1,480,253)
Borrowings on line of credit	-0-	22,400,000
Payments on line of credit	(22,400,000)	(11,000,000)
Principal payments for long-term debt	(9,040,000)	(8,725,000)
Principal payments on right-to-use liabilities	(7,447,117)	(6,784,557)
Net cash flows from capital and related financing activities	(60,793,641)	(28,920,351)
Investing activities		
Investment return	34,065,946	(34,544,045)
Purchase of investments	(61,493,604)	(4,042,525)
Proceeds from sale of investments	31,339,963	17,262,185
Net cash flows from investing activities	3,912,305	(21,324,385)
Net change in cash and cash equivalents	(14,870,790)	(13,175,662)
Cash and cash equivalents		
Beginning of year	103,399,643	116,575,305
End of year	\$ 88,528,853	\$ 103,399,643
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 19,998,302	\$ 33,611,755
In investments	41,472,767	47,834,681
In board designated investments	27,057,784	21,953,207
Total cash and cash equivalents	\$ 88,528,853	\$ 103,399,643

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 12,300,841	\$ 13,995,839
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	32,582,211	33,249,320
Provision for bad debts	10,571,309	6,667,741
Changes in operating assets and liabilities		
Patient accounts receivable	(22,479,427)	(8,082,603)
Inventories	(274,555)	(463,162)
Other current assets	(11,188,712)	6,403,004
Pension asset and liability	(6,825,000)	22,032,933
Lease receivable	332,921	(688,707)
Other assets	(4,054)	(855,270)
Deferred outflows	7,891,278	(12,303,113)
Accounts payable	8,403,661	(7,572,841)
Accrued salaries and related liabilities	4,207,819	(2,156,318)
Accrued expenses and other current liabilities	6,881,937	(5,374,347)
Medicare accelerated and advanced payments	(530,946)	(11,861,830)
Estimated third-party settlements	(836,167)	2,045,063
Deferred inflows	677,430	(3,813,939)
Net cash flows from operating activities	<u>\$ 41,710,546</u>	<u>\$ 31,221,770</u>
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 4,854,378	\$ 5,266,990
Noncash capital and related financing activities		
Capital asset purchases in accounts payable	\$ 1,196,192	\$ 541,196
Capital asset acquired through right-to-use liability	\$ 4,148,735	\$ 2,525,363

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31, 2023 AND 2022

	Pension Trust Funds	
	2023	2022
Assets		
Cash and cash equivalents	\$ 1,112,062	\$ 1,591,955
Investments at fair value - mutual funds	83,328,360	74,088,494
Accrued interest	2,530	52,821
Total assets	<u>\$ 84,442,952</u>	<u>\$ 75,733,270</u>
Net position restricted for pension	<u>\$ 84,442,952</u>	<u>\$ 75,733,270</u>

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION YEARS ENDED DECEMBER 31, 2023 AND 2022

	Pension Trust Funds	
	2023	2022
Additions		
Contributions, employer	\$ 860,000	\$ -0-
Investment return (loss)		
Interest and dividends	2,689,283	3,068,246
Net change in fair value of investments	9,321,698	(20,590,451)
Total investment return (loss)	12,010,981	(17,522,205)
Total additions	12,870,981	(17,522,205)
Deductions		
Benefits paid to participants	3,984,528	3,708,087
Administrative expenses and other	176,771	205,930
Total deductions	4,161,299	3,914,017
Net change in fiduciary net position	8,709,682	(21,436,222)
Net position		
Beginning of year	75,733,270	97,169,492
End of year	\$ 84,442,952	\$ 75,733,270

See accompanying notes to financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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 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, 2023 and 2022, 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 financial statements present Hendricks and its blended component units, collectively referred to as "primary government". The component units discussed in these 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. Rent expense for facilities and equipment under the long-term care leases was approximately \$51,017,000 and \$49,295,000 for 2023 and 2022, respectively. Annual rent expense through 2026 is scheduled to approximate \$51,000,000 under these leases.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Component Units

The accompanying 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 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 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market deposit accounts available for operating purposes with original maturity dates of 90 days or less. Hendricks maintains its cash in accounts, which at times may exceed federally insured limits. Hendricks has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents. Included in cash and cash equivalents 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, 2023 and 2022, these amounts approximated \$38,290,000 and \$47,676,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Investments

Investments consist of cash, mutual funds and common stocks and are reported at fair value. The common stocks are held by the Foundation.

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, 2019 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2020 through 2023 are reflected in estimated third-party settlements on the statements of net position. During 2023 and 2022, 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 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 method while medical and all other supplies are priced using the last-in, first-out method. Inventories at year-end consist of the following:

	<u>2023</u>	<u>2022</u>
Medical supplies and other	\$ 2,901,365	\$ 2,851,428
Pharmaceutical	2,313,734	2,089,116
	<u>\$ 5,215,099</u>	<u>\$ 4,940,544</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 \$31,827,000 and \$22,279,000 of the total as of December 31, 2023 and 2022, respectively.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the financial statements. These assets include investments designated by Hendricks' Board of Trustees 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 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 \$1,741,000 and \$1,733,000 for 2023 and 2022, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Net Position

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

Statements of Revenues, Expenses and Changes in Net Position

Hendricks' 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 2023 and 2022 were approximately \$8,174,000 and \$10,300,000, respectively. Hendricks did not change its charity care and financial assistance policy during 2023 and 2022.

Of Hendricks' total expenses reported, including interest expense, in 2023 and 2022, an estimated \$2,814,000 and \$3,652,000 arose from providing services to charity patients during 2023 and 2022, 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 \$11,108,000 and \$7,147,000 for 2023 and 2022, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Federal or State Income Taxes

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

The Foundation, HRH Health Services and HRH Real Estate are organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. As such, these entities are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation, HRH Health Services and HRH Real Estate have filed their federal and state income tax returns for periods through December 31, 2022. 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, 2022. 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, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying 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 financial statements.

Pensions

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

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Litigation

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

Risk Management

Hendricks is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. 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 statement of net position 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 \$1,800,000. 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, and a \$3,000,000 total policy aggregate.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Fiduciary Funds

Following Hendricks’ financial statements are separate financial statements for fiduciary funds. Fiduciary funds are excluded from Hendricks’ 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 2022 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 statement of net position date for recognition and disclosure in the accompanying financial statements through the date the financial statements were issued which was June 28, 2024.

2. INVESTMENTS

Investments consist of cash, mutual funds and common stocks and are reported at fair value. Investments as of December 31, 2023 and 2022 were approximately \$44,391,000 and \$50,495,000, respectively.

3. 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 of Trustee 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Assets whose use is limited		
Cash and cash equivalents	\$ 27,057,784	\$ 21,953,207
Investments	<u>326,175,096</u>	<u>296,279,093</u>
	<u>\$ 353,232,880</u>	<u>\$ 318,232,300</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the 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, 2023 and 2022, 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, 2023			
		Investment Maturities (in years)			
Hendricks	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 322,525,729	\$ 322,525,729	\$ -0-	\$ -0-	\$ -0-
Common stocks	1,372,661	1,372,661	-0-	-0-	-0-
Fixed income obligations	5,195,000	535,000	3,130,000	1,295,000	235,000
	<u>\$ 329,093,390</u>	<u>\$ 324,433,390</u>	<u>\$ 3,130,000</u>	<u>\$ 1,295,000</u>	<u>\$ 235,000</u>
Pension trust funds					
Mutual funds	\$ 83,328,360	\$ 83,328,360	\$ -0-	\$ -0-	\$ -0-

		December 31, 2022			
		Investment Maturities (in years)			
Hendricks	Carrying Amount	Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 292,024,638	\$ 292,024,638	\$ -0-	\$ -0-	\$ -0-
Common stocks	1,210,111	1,210,111	-0-	-0-	-0-
Fixed income obligations	5,705,000	510,000	2,985,000	1,825,000	385,000
	<u>\$ 298,939,749</u>	<u>\$ 292,024,638</u>	<u>\$ 2,985,000</u>	<u>\$ 1,825,000</u>	<u>\$ 385,000</u>
Pension trust funds					
Mutual funds	\$ 74,088,494	\$ 74,088,494	\$ -0-	\$ -0-	\$ -0-

The common stocks as of December 31, 2023 and 2022 were 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 REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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, 2023 and 2022:

	Hendricks	
	2023	2022
Carrying amount		
Deposits	\$ 88,528,853	\$ 103,399,643
Investments	329,093,390	298,939,749
	\$ 417,622,243	\$ 402,339,392
Included in statement of net position captions		
Cash and cash equivalents	\$ 19,998,302	\$ 33,611,755
Investments	44,391,061	50,495,337
Board designated funded depreciation investments	330,370,625	300,075,101
Held by trustee	15,590,737	15,089,240
Other board designated investments	7,271,518	3,067,959
	\$ 417,622,243	\$ 402,339,392
	Pension Trust Funds	
	2023	2022
Carrying amount		
Deposits	\$ 1,112,062	\$ 1,591,955
Investments	83,328,360	74,088,494
	\$ 84,440,422	\$ 75,680,449

Investment return (loss) and other for 2023 and 2022 is summarized as follows:

	2023	2022
Unrealized gains (losses)	\$ 16,929,625	\$ (41,476,638)
Realized gains (losses)	1,130,432	(7,905,574)
Interest and dividends	14,486,530	12,602,697
Other	1,519,359	2,235,470
Investment return (loss) and other	\$ 34,065,946	\$ (34,544,045)

5. FAIR VALUE MEASUREMENTS

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

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

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- 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, 2023 and 2022:

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

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Assets and liabilities measured at fair value on a recurring basis for Hendricks as of December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short term bond	\$ 1,545,633	\$ 1,545,633	\$ -0-	\$ -0-
Common stocks				
Finance	269,103	269,103	-0-	-0-
Health care	217,227	217,227	-0-	-0-
Technology	300,116	300,116	-0-	-0-
Other	586,215	586,215	-0-	-0-
Total common stocks	1,372,661	1,372,661	-0-	-0-
	2,918,294	\$ 2,918,294	\$ -0-	\$ -0-
Cash	41,472,767			
Total investments	\$ 44,391,061			
Assets whose use is limited				
Mutual funds				
Diversified emerging markets	\$ 13,278,416	\$ 13,278,416	\$ -0-	\$ -0-
Foreign large growth	16,994,079	16,994,079	-0-	-0-
Foreign small/mid value	13,379,226	13,379,226	-0-	-0-
Inflation-protected bond	22,715,789	22,715,789	-0-	-0-
Intermediate-term bond	108,688,054	108,688,054	-0-	-0-
Large blend	49,903,202	49,903,202	-0-	-0-
Long-short equity	11,258,701	11,258,701	-0-	-0-
Mid-cap blend	9,161,557	9,161,557	-0-	-0-
Multistrategy	11,698,638	11,698,638	-0-	-0-
Nontraditional bond	22,918,051	22,918,051	-0-	-0-
Systematic trend	11,788,562	11,788,562	-0-	-0-
Other	29,195,821	29,195,821	-0-	-0-
Total mutual funds	320,980,096	320,980,096	-0-	-0-
Fixed income obligations	5,195,000	-0-	5,195,000	-0-
	326,175,096	\$ 320,980,096	\$ 5,195,000	\$ -0-
Cash and cash equivalents	27,057,784			
Total assets whose use is limited	\$ 353,232,880			

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short term bond	\$ 1,450,545	\$ 1,450,545	\$ -0-	\$ -0-
Common stocks				
Health care	241,915	241,915	-0-	-0-
Other	968,196	968,196	-0-	-0-
Total common stocks	1,210,111	1,210,111	-0-	-0-
	2,660,656	\$ 2,660,656	\$ -0-	\$ -0-
Cash	47,834,681			
Total investments	\$ 50,495,337			
Assets whose use is limited				
Mutual funds				
Diversified emerging markets	\$ 12,082,154	\$ 12,082,154	\$ -0-	\$ -0-
Foreign large growth	15,275,170	15,275,170	-0-	-0-
Foreign small/mid value	11,796,954	11,796,954	-0-	-0-
Fixed income funds	150,763,577	150,763,577	-0-	-0-
Large blend	39,656,438	39,656,438	-0-	-0-
Long-short equity	10,928,972	10,928,972	-0-	-0-
Nontraditional bond	14,173,760	14,173,760	-0-	-0-
Systematic trend	11,009,787	11,009,787	-0-	-0-
Other	24,887,281	24,887,281	-0-	-0-
Total mutual funds	290,574,093	290,574,093	-0-	-0-
Fixed income obligations	5,705,000	-0-	5,705,000	-0-
	296,279,093	\$ 290,574,093	\$ 5,705,000	\$ -0-
Cash and cash equivalents	21,953,207			
Total assets whose use is limited	\$ 318,232,300			

Assets and liabilities measured at fair value on a recurring basis for Hendricks' pension trust funds as of December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Pension trust funds				
Investments				
Mutual funds				
Alternative	\$ 9,430,662	\$ 9,430,662	\$ -0-	\$ -0-
Emerging markets	6,240,995	6,240,995	-0-	-0-
Foreign	11,604,187	11,604,187	-0-	-0-
Intermediate core-plus bond	17,180,491	17,180,491	-0-	-0-
Large blend	28,484,107	28,484,107	-0-	-0-
Mid-cap growth	7,286,061	7,286,061	-0-	-0-
Other	3,101,857	3,101,857	-0-	-0-
Total investments	\$ 83,328,360	\$ 83,328,360	\$ -0-	\$ -0-

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Pension trust funds				
Investments				
Mutual funds				
Alternative	\$ 9,281,157	\$ 9,281,157	\$ -0-	\$ -0-
Emerging markets	5,532,779	5,532,779	-0-	-0-
Foreign	10,413,921	10,413,921	-0-	-0-
Intermediate core-plus bond	15,422,640	15,422,640	-0-	-0-
Large blend	24,713,405	24,713,405	-0-	-0-
Mid-cap growth	5,739,096	5,739,096	-0-	-0-
Other	2,985,496	2,985,496	-0-	-0-
Total investments	\$ 74,088,494	\$ 74,088,494	\$ -0-	\$ -0-

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Realized gains and losses included in earnings are reported in the statements of revenues, expenses and changes in net position as a component of investment return (loss). 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, 2023 and 2022 and are reported in the statements of revenues, expenses and changes in net position as a component of investment return (loss).

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 financial statements.

6. CAPITAL ASSETS

Progressions for capital assets for 2023 and 2022 follow:

	December 31, 2022	Additions	Disposals	Transfers	December 31, 2023
Non-depreciable capital assets					
Land	\$ 23,602,369	\$ -0-	\$ -0-	\$ -0-	\$ 23,602,369
Construction in progress	3,251,332	2,381,227	-0-	(2,730,426)	2,902,133
Total non-depreciable capital assets	26,853,701	2,381,227	-0-	(2,730,426)	26,504,502
Depreciable capital assets					
Land improvements	10,231,133	279,445	-0-	-0-	10,510,578
Buildings and fixed equipment	306,215,423	9,527,314	-0-	2,286,315	318,029,052
Major movable equipment	166,333,604	5,629,550	(120,945)	444,111	172,286,320
Total depreciable capital assets	482,780,160	15,436,309	(120,945)	2,730,426	500,825,950
Accumulated depreciation					
Land improvements	(8,670,694)	(465,572)	-0-	-0-	(9,136,266)
Buildings and fixed equipment	(148,953,642)	(11,185,009)	270	-0-	(160,138,381)
Major movable equipment	(115,344,249)	(13,165,588)	98,664	-0-	(128,411,173)
Total accumulated depreciation	(272,968,585)	(24,816,169)	98,934	-0-	(297,685,820)
Total depreciable capital assets, net	209,811,575	(9,379,860)	(22,011)	2,730,426	203,140,130
Intangible right-to-use assets					
Leased equipment	10,946,801	4,148,735	-0-	-0-	15,095,536
SBITA assets	60,709,974	-0-	-0-	-0-	60,709,974
Total intangible right-to-use assets	71,656,775	4,148,735	-0-	-0-	75,805,510
Accumulated amortization					
Leased equipment	(5,993,474)	(1,994,683)	-0-	-0-	(7,988,157)
SBITA assets	(23,256,960)	(5,771,359)	-0-	-0-	(29,028,319)
Total accumulated amortization	(29,250,434)	(7,766,042)	-0-	-0-	(37,016,476)
Total intangible right-to-use asset, net	42,406,341	(3,617,307)	-0-	-0-	38,789,034
Capital assets, net	<u>\$ 279,071,617</u>	<u>\$ (10,615,940)</u>	<u>\$ (22,011)</u>	<u>\$ -0-</u>	<u>\$ 268,433,666</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

	December 31,				December 31,
	2021	Additions	Disposals	Transfers	2022
Non-depreciable capital assets					
Land	\$ 21,224,893	\$ 2,347,476	\$ -0-	\$ 30,000	\$ 23,602,369
Construction in progress	1,624,593	3,127,919	-0-	(1,501,180)	3,251,332
Total non-depreciable capital assets	22,849,486	5,475,395	-0-	(1,471,180)	26,853,701
Depreciable capital assets					
Land improvements	10,161,634	69,499	-0-	-0-	10,231,133
Buildings and fixed equipment	300,828,421	4,365,160	-0-	1,021,842	306,215,423
Major movable equipment	156,122,236	10,002,217	(240,187)	449,338	166,333,604
Total depreciable capital assets	467,112,291	14,436,876	(240,187)	1,471,180	482,780,160
Accumulated depreciation					
Land improvements	(8,040,273)	(630,421)	-0-	-0-	(8,670,694)
Buildings and fixed equipment	(138,325,138)	(10,628,504)	-0-	-0-	(148,953,642)
Major movable equipment	(100,288,331)	(15,101,631)	45,713	-0-	(115,344,249)
Total accumulated depreciation	(246,653,742)	(26,360,556)	45,713	-0-	(272,968,585)
Total depreciable capital assets, net	220,458,549	(11,923,680)	(194,474)	1,471,180	209,811,575
Intangible right-to-use assets					
Leased equipment	9,009,782	1,937,019	-0-	-0-	10,946,801
SBITA assets	60,121,630	588,344	-0-	-0-	60,709,974
Total intangible right-to-use assets	69,131,412	2,525,363	-0-	-0-	71,656,775
Accumulated amortization					
Leased equipment	(4,807,430)	(1,186,044)	-0-	-0-	(5,993,474)
SBITA assets	(17,554,240)	(5,702,720)	-0-	-0-	(23,256,960)
Total accumulated amortization	(22,361,670)	(6,888,764)	-0-	-0-	(29,250,434)
Total intangible right-to-use asset, net	46,769,742	(4,363,401)	-0-	-0-	42,406,341
Capital assets, net	\$ 290,077,777	\$ (10,811,686)	\$ (194,474)	\$ -0-	\$ 279,071,617

Significant outstanding commitments on capital assets as of December 31, 2023 were approximately \$8,503,000, primarily related to facility remodels, buildouts, and expansions.

Intangible right-to-use assets

Leased equipment

As of December 31, 2023 and 2022, Hendricks had various lease agreements in place for equipment. The values of the equipment intangible right-to-use assets are amortized straight-line over the lease terms including renewable periods Hendricks is reasonably certain to exercise. The amortization periods conclude at various times from 2024 through 2028. The terms of the lease agreements are addressed in Note 8.

Subscription-based information technology arrangement (SBITA) assets

As of December 31, 2023 and 2022, Hendricks had various agreements in place for SBITAs. The values of the SBITA intangible right-to-use assets are amortized straight-line over the lease terms including renewable periods Hendricks is reasonably certain to exercise. The amortization periods conclude at various times from 2024 through 2030. The terms of the SBITA agreements are addressed in Note 8.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

7. 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.

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 and Series 2019C Bonds for \$27,255,000 to refinance the Series 2009 Bonds and Series 2015 Bonds. Hendricks, the Authority, Fifth Third Commercial Funding, Inc. (Fifth Third), First Merchants Bank (First Merchants) and BMO Harris Investment Company, LLC (BMO Investment) then entered into Bond Purchase and Loan Agreements (the Agreements). Fifth Third, First Merchants, and BMO Investment purchased from the Authority all of the Series 2019A, 2019B, and 2019C Bonds, respectively, in private placements.

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

The Series 2007A, 2019A, 2019B and 2019C 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, and 2019C Bonds require Hendricks to comply with certain financial covenants. As of December 31, 2023 and 2022, Hendricks believed it was in compliance with these financial covenants.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Line 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, 2023 and 2022 was \$-0- and \$22,400,000, respectively. The line of credit bears interest at the Secured Overnight Financing Rate plus 105 basis points (6.43% and 5.35% at December 31, 2023 and 2022, respectively) and is secured by Hendricks' net revenues. The line of credit is renewable annually and expires in July 2025. Under the terms of the line of credit, Hendricks is required to meet certain financial covenants. Hendricks believes it is in compliance with all covenants as of December 31, 2023 and 2022, respectively.

Loss on Bond Refunding

Included in deferred outflows as of December 31, 2023 and 2022 is a loss on debt refunding of approximately \$736,000 and \$854,000, respectively, related to the refunding of debt during 2007. Annual amortization on the loss is approximately \$117,000 through April 2030.

Progressions for long-term debt for 2023 and 2022 include the following:

	December 31, 2022	Additions	Payments	December 31, 2023	Current Portion
Direct borrowings/placements					
Indiana Bond Bank					
Special Program Refunding					
Bonds Series 2007A	\$ 25,050,000	\$ -0-	\$ (2,600,000)	\$ 22,450,000	\$ 2,735,000
Indiana Taxable Economic					
Development Revenue Bonds					
Series 2009	3,840,000	-0-	(390,000)	3,450,000	410,000
Series 2016	1,865,000	-0-	(120,000)	1,745,000	125,000
Indiana Finance Authority					
Health Facility Revenue					
Refunding Bonds, Series 2019	65,455,000	-0-	(5,930,000)	59,525,000	6,100,000
	96,210,000	\$ -0-	\$ (9,040,000)	87,170,000	\$ 9,370,000
Unamortized bond premium	1,588,712	\$ -0-	\$ (219,132)	1,369,580	
	<u>\$ 97,798,712</u>			<u>\$ 88,539,580</u>	

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	December 31, 2021	Additions	Payments	December 31, 2022	Current Portion
Direct borrowings/placements					
Indiana Bond Bank					
Special Program Refunding					
Bonds Series 2007A	\$ 27,520,000	\$ -0-	\$ (2,470,000)	\$ 25,050,000	\$ 2,600,000
Indiana Taxable Economic					
Development Revenue Bonds					
Series 2009	4,210,000	-0-	(370,000)	3,840,000	390,000
Series 2016	1,985,000	-0-	(120,000)	1,865,000	120,000
Indiana Finance Authority					
Health Facility Revenue					
Refunding Bonds, Series 2019	71,220,000	-0-	(5,765,000)	65,455,000	5,930,000
	<u>104,935,000</u>	<u>\$ -0-</u>	<u>\$ (8,725,000)</u>	<u>96,210,000</u>	<u>\$ 9,040,000</u>
Unamortized bond premium	1,807,845	\$ -0-	\$ (219,133)	1,588,712	
	<u>\$ 106,742,845</u>			<u>\$ 97,798,712</u>	

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Direct Borrowings/Placements		
	Principal	Interest	Total
2024	\$ 9,370,000	\$ 3,064,124	\$ 12,434,124
2025	9,730,000	2,719,087	12,449,087
2026	10,090,000	2,359,631	12,449,631
2027	10,455,000	1,985,872	12,440,872
2028	10,850,000	1,596,678	12,446,678
2029-2033	22,300,000	4,028,798	26,328,798
2034-2038	12,975,000	1,698,424	14,673,424
2039	1,400,000	28,000	1,428,000
	<u>\$ 87,170,000</u>	<u>\$ 17,480,614</u>	<u>\$ 104,650,614</u>

8. LEASES AND SBITA LIABILITIES

In 2022, Hendricks adopted the guidance in Government Accounting Standards Board (GASB) Statement No. 87, *Leases* and GASB Statement No. 96, *Subscription-Based Information Technology Agreements* (SBITA) for accounting and reporting leases and SBITAs that had previously been reported as operating leases and expenses. Under these GASB statements, Hendricks recognized intangible right-to-use lease assets, lease receivables and corresponding lease liabilities and deferred inflows in the financial statements.

At implementation of GASB 87 and GASB 96 and the commencement of leases and SBITAs beginning after January 1, 2021, Hendricks initially measured the lease liability and SBITA liability at the present value of payments expected to be made during the remaining lease and SBITA term. Subsequently, the lease liability and SBITA liability are reduced by the principal portion of payments made. The intangible right-to-use asset was initially measured as the initial amount of the lease liability and SBITA liability, adjusted for lease and SBITA payments made at or before the lease and SBITA commencement date, plus certain

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initial direct costs. Subsequently, the intangible right-to-use asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases and SBITAs include how Hendricks determines (1) the discount rate it uses to discount the expected lease and SBITA payments to present value, (2) lease and SBITA term and (3) lease and SBITA payments. Hendricks uses the interest rate charged by the lessor or software subscription provider as the discount rate. When the interest rate charged by the lessor or software subscription provider is not provided, Hendricks generally uses its estimated incremental borrowing rate as the discount rate for leases and SBITAs. The lease and SBITA term includes the noncancellable period of the lease. Lease and SBITA payments included in the measurement of the lease and SBITA liability are composed of fixed payments and purchase option price that Hendricks is reasonably certain to exercise.

Hendricks monitors changes in circumstances that would require a remeasurement of its leases and SBITAs and will remeasure the lease and SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the lease and SBITA liability.

GASB 87 as Lessor

As lessor, Hendricks has agreements with tenants that expire at various times from 2024 through 2069. The agreements require monthly payments ranging from \$5,000 to \$9,000 discounted at rates ranging from 3% to 5%. Hendricks recorded lease receivables of approximately \$4,878,000 and \$5,231,000 and deferred inflows of \$4,570,000 and \$5,030,000 as of December 31, 2023 and 2022, respectively. The current portion of lease receivables of \$333,000 and \$354,000 as of December 31, 2023 and 2022, respectively, is included in other current assets on the statements of net position. The total inflows of resources for lease revenue and interest income related to the lessor agreements were \$322,000 and \$214,000 for 2023 and 2022, respectively. The following is the maturity schedule for lease receivables.

Year Ending December 31,	
2024	\$ 332,921
2025	322,052
2026	341,938
2027	112,790
2028	114,304
2029-2033	502,938
2034-2038	93,032
2039-2043	170,750
2044-2048	267,554
2049-2053	387,205
2054-2058	534,148
2059-2063	713,619
2064-2068	931,790
2069	52,710
	<u>\$ 4,877,751</u>

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GASB 87 as Lessee

The leased equipment requires monthly payments ranging from \$1,200 to \$40,000 through dates ranging from 2023 to 2028. The discount rate is based on the implicit rate in the lease agreement if available. If not available, Hendricks' incremental borrowing rate is used as the discount rate. The discount rates ranged from 1.99% to 7.30% for 2023 and 2022.

GASB 96

SBITA agreements under GASB 96 for Hendricks include its electronic health records and financial reporting general ledger packages among other key subscription-based services. The SBITA agreements require either monthly or annual payments ranging from up to \$400,000 per month through 2030 to \$650,000 annually through 2027. The discount rate is based on the implicit rate in the SBITA agreement if stated. If not stated, Hendricks' incremental borrowing rate was used. The discount rates ranged from 3.50% to 5.00% for 2023 and 2022.

The progressions for lease and SBITA liabilities for 2023 and 2022 are as follows:

	December 31, 2022	Additions	Reductions	December 31, 2023	Current Portion
Right-to-use lease liabilities	\$ 4,511,868	\$ 4,148,735	\$ (1,958,310)	\$ 6,702,293	\$ 2,410,080
Right-to-use SBITA liabilities	38,614,858	-0-	(5,488,807)	33,126,051	5,624,692
Total right-to-use liabilities	<u>\$ 43,126,726</u>	<u>\$ 4,148,735</u>	<u>\$ (7,447,117)</u>	<u>\$ 39,828,344</u>	<u>\$ 8,034,772</u>

	December 31, 2021	Additions	Reductions	December 31, 2022	Current Portion
Right-to-use lease liabilities	\$ 3,967,619	\$ 1,937,019	\$ (1,392,770)	\$ 4,511,868	\$ 1,680,933
Right-to-use SBITA liabilities	43,418,301	588,344	(5,391,787)	38,614,858	5,488,807
Total right-to-use liabilities	<u>\$ 47,385,920</u>	<u>\$ 2,525,363</u>	<u>\$ (6,784,557)</u>	<u>\$ 43,126,726</u>	<u>\$ 7,169,740</u>

There were no remeasurements for lease or SBITA liabilities during 2023 and 2022.

Scheduled principal and interest payments on lease and SBITA liabilities for the years succeeding December 31, 2023 are as follows:

Year Ending December 31,	Right-to-Use Liability Payments to Maturity						
	Leased Equipment		SBITA Assets		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Payments
2024	\$ 2,410,080	\$ 14,972	\$ 5,624,692	\$ 1,104,818	\$ 8,034,772	\$ 1,119,790	\$ 9,154,562
2025	1,738,631	7,785	5,381,381	903,021	7,120,012	910,806	8,030,818
2026	1,262,628	4,665	5,031,388	709,791	6,294,016	714,456	7,008,472
2027	880,497	2,316	4,340,265	528,915	5,220,762	531,231	5,751,993
2028	410,457	448	4,494,635	374,545	4,905,092	374,993	5,280,085
2029-2030	-0-	-0-	8,253,690	267,375	8,253,690	267,375	8,521,065
	<u>\$ 6,702,293</u>	<u>\$ 30,186</u>	<u>\$ 33,126,051</u>	<u>\$ 3,888,465</u>	<u>\$ 39,828,344</u>	<u>\$ 3,918,651</u>	<u>\$ 43,746,995</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

9. NET PATIENT SERVICE REVENUE

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

A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

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

Medicaid and Hospital Assessment Fee 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 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. Hospitals also fund 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 2023 and 2022, Hendricks recognized HAF and HIP program assessments of approximately \$16,515,000 and \$14,676,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in the 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 statements of revenues, expenses and changes in net position.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

As a governmental entity, Hendricks is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. Hendricks recognized reimbursement from these programs within net patient service revenue of approximately \$3,756,000 and \$4,056,000 during 2023 and 2022, 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 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
Inpatient	\$ 256,089,562	\$ 242,325,340
Outpatient	1,065,313,783	955,699,162
Long-term care services	<u>481,881,571</u>	<u>451,959,207</u>
Gross patient service revenue	1,803,284,916	1,649,983,709
Contractual allowances	844,137,719	750,536,757
Uninsured self pay discounts	11,107,749	7,146,741
Charity care	8,174,121	10,300,357
Provision for bad debts	<u>10,571,309</u>	<u>6,667,741</u>
Deductions from revenue	<u>873,990,898</u>	<u>774,651,596</u>
Net patient service revenue	<u>\$ 929,294,018</u>	<u>\$ 875,332,113</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 statements of revenues, expenses and changes in net position.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

10. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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. Contributions of \$860,000 were made in 2023. There were no contributions to the plan in 2022.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Employees Covered by Benefit Terms

As of December 31, 2023 and 2022, the following employees were covered by the benefit terms of the Plan:

	<u>2023</u>	<u>2022</u>
Active plan members, including terminated but vested participants	523	559
Inactive plan members and beneficiaries receiving benefits	466	452
Inactive plan members entitled to but not yet receiving benefits	<u>280</u>	<u>265</u>
	<u>1,269</u>	<u>1,276</u>

Contributions

The annual required contributions for 2023 and 2022 and estimated liabilities as of January 1, 2023 and 2022 were determined as part of the actuarial valuations using the Entry Age Normal cost method.

Net Pension Asset/Liability

The total pension liability was measured as of December 31, 2023 and 2022, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of January 1, 2023 and 2022.

Actuarial assumptions

The total pension liability in the December 31, 2023 and 2022 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00%
Salary increases	3.00%
Investment rate of return	5.50%

In 2023 and 2022, mortality rates were based on PubG-2010 Sex Distinct Mortality with generational improvements beginning in 2010 based on improvement scale MP-2021.

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 2023 and 2022.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 5.50% for 2023 and 2022. 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	\$ 14,366,592	\$ 3,775,401	\$ (5,084,500)

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

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Changes in the Net Pension (Asset) Liability

The changes in the net pension (asset) liability during 2023 and 2022 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2022	\$ 86,333,671	\$ 75,733,270	\$ 10,600,401
Service cost	463,494	-0-	463,494
Interest	4,664,270	-0-	4,664,270
Differences between expected and actual experience	741,446	-0-	741,446
Contributions, employer	-0-	860,000	(860,000)
Benefit payments	(3,984,528)	(3,984,528)	-0-
Net investment income (loss)	-0-	12,010,981	(12,010,981)
Administrative expenses	-0-	(193,671)	193,671
Other	-0-	16,900	(16,900)
Net change	<u>1,884,682</u>	<u>8,709,682</u>	<u>(6,825,000)</u>
Balance, 12/31/2023	<u>\$ 88,218,353</u>	<u>\$ 84,442,952</u>	<u>\$ 3,775,401</u>
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance, 12/31/2021	\$ 85,736,960	\$ 97,169,492	\$ (11,432,532)
Service cost	484,513	-0-	484,513
Interest	4,640,209	-0-	4,640,209
Differences between expected and actual experience	(819,924)	-0-	(819,924)
Benefit payments	(3,708,087)	(3,708,087)	-0-
Net investment income (loss)	-0-	(17,522,205)	17,522,205
Administrative expenses	-0-	(226,431)	226,431
Other	-0-	20,501	(20,501)
Net change	<u>596,711</u>	<u>(21,436,222)</u>	<u>22,032,933</u>
Balance, 12/31/2022	<u>\$ 86,333,671</u>	<u>\$ 75,733,270</u>	<u>\$ 10,600,401</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

For 2023 and 2022, Hendricks recognized pension expense of approximately \$2,946,000 and \$5,217,000, respectively. As of December 31, 2023 and 2022, 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
Pension balance, December 31, 2022	\$ 24,965,012	\$ (9,670,854)
Differences between expected and actual experience	741,442	-0-
Amortization of expected versus actual	(558,206)	260,701
Changes in assumptions	-0-	-0-
Amortization of changes in assumptions	(3,395,433)	35,540
Differences between projected and actual earnings on plan investments	-0-	(7,909,590)
Amortization of projected versus actual earnings on plan investments	(4,561,346)	6,475,734
Pension balance, December 31, 2023	17,191,469	(10,808,469)
Deferred inflows - lessor arrangements	-0-	(4,569,821)
Deferred outflows - loss on bond refunding	735,842	-0-
Total balances, December 31, 2023	\$ 17,927,311	\$ (15,378,290)
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension balance, December 31, 2021	\$ 12,544,164	\$ (14,065,881)
Differences between expected and actual experience	-0-	(819,922)
Amortization of expected versus actual	(560,936)	260,702
Changes in assumptions	-0-	-0-
Amortization of changes in assumptions	(3,395,433)	60,431
Differences between projected and actual earnings on plan investments	22,806,737	-0-
Amortization of projected versus actual earnings on plan investments	(6,429,520)	4,893,816
Pension balance, December 31, 2022	24,965,012	(9,670,854)
Deferred inflows - lessor arrangements	-0-	(5,030,006)
Deferred outflows - loss on bond refunding	853,577	-0-
Total balances, December 31, 2022	\$ 25,818,589	\$ (14,700,860)

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Year Ending December 31,	
2024	\$ 3,091,725
2025	1,708,403
2026	3,164,790
2027	(1,581,918)
	<u>\$ 6,383,000</u>

11. TAX DEFERRED ANNUITY PLAN AND OTHER BENEFIT PLANS

Plan Description

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

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

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Board of Trustees and the plan administrator. Plan members may elect to contribute to the plan. Hendricks will contribute to each plan members' elective deferrals a matching amount up to a maximum percentage of each participant's annual compensation, to be determined at the discretion of the Board of Trustees. In 2023 and 2022, 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. There was no discretionary employer contribution in 2023 or 2022. Hendricks' contributions to the plans for 2023 and 2022 were approximately \$5,758,000 and \$2,846,000, respectively.

12. CONCENTRATION OF CREDIT RISK

Hendricks corporate office and its primary healthcare 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.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

The mix of receivables and revenue from patients and third-party payors as of December 31, 2023 and 2022 was as follows:

	Receivables		Revenues	
	2023	2022	2023	2022
Medicare	43%	41%	45%	43%
Medicaid	8%	9%	12%	13%
Anthem/Blue Cross	15%	15%	20%	20%
Commercial and other	20%	20%	21%	22%
Self-Pay	14%	15%	2%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Under the long-term care leases, Hendricks recorded expenses related to purchased services from the managers of the facilities of approximately \$286,434,000 and \$288,860,000 during 2023 and 2022, respectively. Amounts due to the managers included in current liabilities as of December 31, 2023 and 2022 approximated \$90,669,000 and \$76,076,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

13. 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, 2023 and 2022 is as follows:

	2023			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Statement of net position				
Assets				
Current assets	\$ 2,480,724	\$ 2,250,035	\$ 4,270,560	\$ 262,327
Capital assets	-0-	476,663	-0-	1,897,093
Total assets	<u>\$ 2,480,724</u>	<u>\$ 2,726,698</u>	<u>\$ 4,270,560</u>	<u>\$ 2,159,420</u>
Liabilities				
Due to Hendricks	\$ -0-	\$ -0-	\$ 2,475	\$ 32,395
Other current liabilities	332,568	497,258	31,275	-0-
Total liabilities	332,568	497,258	33,750	32,395
Net position				
Net investment in capital assets	-0-	476,663	-0-	1,897,093
Unrestricted	2,148,156	1,752,777	4,236,810	229,932
Total net position	<u>2,148,156</u>	<u>2,229,440</u>	<u>4,236,810</u>	<u>2,127,025</u>
Total liabilities and net position	<u>\$ 2,480,724</u>	<u>\$ 2,726,698</u>	<u>\$ 4,270,560</u>	<u>\$ 2,159,420</u>
Statement of revenues and expenses and changes in net position				
Revenues	\$ -0-	\$ 4,476,997	\$ 174,439	\$ -0-
Expenses				
Depreciation	-0-	205,920	-0-	-0-
Other expenses	649,165	3,364,863	670,445	32,469
Total expenses	<u>649,165</u>	<u>3,570,783</u>	<u>670,445</u>	<u>32,469</u>
Operating income (loss)	(649,165)	906,214	(496,006)	(32,469)
Nonoperating revenues (expenses)	1,110,679	49,295	45,189	-0-
Excess revenues over (under) expenses	461,514	955,509	(450,817)	(32,469)
Distributions and other, net	-0-	(1,010,686)	-0-	(4,500,000)
Change in net position	461,514	(55,177)	(450,817)	(4,532,469)
Net position, beginning of year	1,686,642	2,284,617	4,687,627	6,659,494
Net position, end of year	<u>\$ 2,148,156</u>	<u>\$ 2,229,440</u>	<u>\$ 4,236,810</u>	<u>\$ 2,127,025</u>
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ 543,988	\$ (77,157)	\$ (476,028)	\$ (74)
Capital and related financing activities	-0-	57,472	-0-	(4,500,000)
Investing activities	(257,957)	-0-	(3,045,188)	-0-
Change	286,031	(19,685)	(3,521,216)	(4,500,074)
Cash and cash equivalents, beginning of year	102,864	334,684	4,700,429	4,762,401
Cash and cash equivalents, end of year	<u>\$ 388,895</u>	<u>\$ 314,999</u>	<u>\$ 1,179,213</u>	<u>\$ 262,327</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

	2022			
	Foundation	HAMCO	HRH Health Services	HRH Real Estate
Statement of net position				
Assets				
Current assets	\$ 1,931,486	\$ 2,145,710	\$ 4,745,308	\$ 4,762,401
Capital assets	-0-	534,135	-0-	1,897,093
Total assets	<u>\$ 1,931,486</u>	<u>\$ 2,679,845</u>	<u>\$ 4,745,308</u>	<u>\$ 6,659,494</u>
Liabilities				
Due to Hendricks	\$ -0-	\$ 3,807	\$ -0-	\$ -0-
Other current liabilities	244,844	391,421	57,681	-0-
Total liabilities	244,844	395,228	57,681	-0-
Net position				
Net investment in capital assets	-0-	534,135	-0-	1,897,093
Unrestricted	1,686,642	1,750,482	4,687,627	4,762,401
Total net position	<u>1,686,642</u>	<u>2,284,617</u>	<u>4,687,627</u>	<u>6,659,494</u>
Total liabilities and net position	<u>\$ 1,931,486</u>	<u>\$ 2,679,845</u>	<u>\$ 4,745,308</u>	<u>\$ 6,659,494</u>
Statement of revenues and expenses and changes in net position				
Revenues	\$ -0-	\$ 4,041,558	\$ 175,583	\$ -0-
Expenses				
Depreciation	-0-	221,037	-0-	-0-
Other expenses	936,700	2,887,334	496,260	65,055
Total expenses	936,700	3,108,371	496,260	65,055
Operating income (loss)	(936,700)	933,187	(320,677)	(65,055)
Nonoperating revenues (expenses)	416,638	(51,530)	78	-0-
Excess revenues over (under) expenses	(520,062)	881,657	(320,599)	(65,055)
Distributions and other, net	-0-	(881,659)	-0-	-0-
Change in net position	(520,062)	(2)	(320,599)	(65,055)
Net position, beginning of year	2,206,704	2,284,619	5,008,226	6,724,549
Net position, end of year	<u>\$ 1,686,642</u>	<u>\$ 2,284,617</u>	<u>\$ 4,687,627</u>	<u>\$ 6,659,494</u>
Statement of cash flows				
Cash provided by (used in)				
Operating activities	\$ (487,277)	\$ (93,196)	\$ (319,658)	\$ (66,555)
Capital and related financing activities	-0-	148,826	-0-	-0-
Investing activities	135,487	(1)	(78)	-0-
Change	(351,790)	55,629	(319,736)	(66,555)
Cash equivalents, beginning of year	454,654	279,055	5,020,165	4,828,956
Cash equivalents, end of year	<u>\$ 102,864</u>	<u>\$ 334,684</u>	<u>\$ 4,700,429</u>	<u>\$ 4,762,401</u>

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

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

14. SELF INSURANCE

Hendricks is self-insured for employee health claims. A third party administrator processes the claims for Hendricks who maintains an estimated liability for the amount of claims incurred but not reported. Hendricks also maintains reinsurance including a stop loss for individual employees over \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$25,100,000 and \$23,283,000 for 2023 and 2022, respectively. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in balance of health claim liabilities during the past two years are as follows:

	<u>2023</u>	<u>2022</u>
Unpaid claims, beginning of year	\$ 2,834,167	\$ 2,074,548
Incurred claims and changes in estimates	25,100,377	23,282,601
Claim payments	<u>(23,679,560)</u>	<u>(22,522,982)</u>
Unpaid claims, end of year	<u>\$ 4,254,984</u>	<u>\$ 2,834,167</u>

As of December 31, 2023 and 2022, Hendricks recorded reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability of \$-0- and approximately 1,300,000, respectively.

15. RESTRICTED NON-EXPENDABLE NET POSITION

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

	<u>2023</u>	<u>2022</u>
Non-controlling interests	<u>\$ 929,644</u>	<u>\$ 984,820</u>

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

	Controlling Interest	Non-controlling Interest	Total
Net position, December 31, 2021	\$ 1,299,798	\$ 984,821	\$ 2,284,619
Operating income	544,523	388,664	933,187
Nonoperating revenue (expense)	(30,068)	(21,462)	(51,530)
Dividends	(514,456)	(367,203)	(881,659)
Change in net position	(1)	(1)	(2)
Net position, December 31, 2022	1,299,797	984,820	2,284,617
Operating income	529,091	377,123	906,214
Nonoperating revenue (expense)	28,781	20,514	49,295
Dividends	(557,873)	(397,637)	(955,510)
Redemption of non-controlling shares	-0-	(55,176)	(55,176)
Change in net position	(1)	(55,176)	(55,177)
Net position, December 31, 2023	<u>\$ 1,299,796</u>	<u>\$ 929,644</u>	<u>\$ 2,229,440</u>

16. COVID-19 AND RELATED FUNDING

During the Coronavirus (COVID-19) pandemic, grants under the American Rescue Plan (ARP) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act were distributed to health care providers impacted by the COVID-19 pandemic. Revenues from ARP and CARES grants were recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses could not be reimbursed or obligated to be reimbursed from another source. ARP and CARES grants that were not fully expended on eligible expenses could then be applied to lost revenues as defined by the specific guidance issued by the grantor. During 2023 and 2022, Hendricks received ARP and CARES grants of \$-0- and approximately \$6,147,000, respectively. ARP and CARES funds are subject to recoupment by the grantor in the event that the conditions for recognition are not satisfied. During 2023 and 2022, Hendricks recognized \$300,000 and \$5,847,000, respectively, of ARP and CARES grants as revenue, in the statements of revenues, expenses and changes in net position. Amounts received where the conditions of the grants have not been satisfied are recorded as deferred liabilities. As of December 31, 2023 and 2022, deferred liabilities of \$-0- and \$300,000, respectively, were recorded in accrued expenses and other current liabilities on the statements of net position.

The CARES Act also allowed health care providers to request advanced or accelerated payments for Medicare services during the early stages of the pandemic. Settlement of these funds began in the second quarter of 2021. As of December 31, 2023, all Medicare accelerated and advanced payments received had been repaid. As of December 31, 2022, approximately \$531,000 of Medicare accelerated and advanced payments were outstanding and recorded as current liabilities on the statement of net position.

HENDRICKS REGIONAL HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

17. UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 101, *Compensated Absences*, will be effective for fiscal years beginning after December 15, 2023. The objective of this GASB guidance is to better meet the informational needs of financial statement users by updating the recognition and measurement guidance for compensated absences under a unified model and by amending certain previously required disclosures.

Hendricks is currently evaluating the impact that this GASB guidance will have on its future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2023

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 463,494	\$ 484,513	\$ 434,685	\$ 292,364	\$ 348,219	\$ 354,904	\$ 449,870	\$ 405,170	\$ 466,554	\$ 452,071
Interest	4,664,270	4,640,209	4,462,431	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-	239,119	-0-	-0-	-0-	-0-	246,372	-0-	-0-
Differences between expected and actual experience	741,446	(819,924)	1,136,482	(278,601)	249,765	940,439	271,415	(1,146,174)	659,468	-0-
Changes of assumptions	-0-	-0-	575,819	12,616,351	3,641,039	(124,468)	(248,774)	1,389,220	1,893,100	-0-
Benefit payments	(3,984,528)	(3,708,087)	(3,623,982)	(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	1,884,682	596,711	3,224,554	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	86,333,671	85,736,960	82,512,406	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>\$ 88,218,353</u>	<u>\$ 86,333,671</u>	<u>\$ 85,736,960</u>	<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										
Contributions, employer	\$ 860,000	\$ -0-	\$ 2,600,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Benefit payments	(3,984,528)	(3,708,087)	(3,623,982)	(2,988,149)	(2,598,951)	(2,332,950)	(2,040,835)	(2,361,119)	(4,183,243)	(1,321,007)
Net investment income (loss)	12,010,981	(17,522,205)	11,051,242	12,912,898	15,258,882	(4,241,637)	10,340,867	4,239,435	203,831	4,722,125
Administrative expenses	(193,671)	(226,431)	(214,942)	(209,954)	(177,008)	(135,542)	(144,474)	(140,674)	(229,428)	(71,215)
Other	16,900	20,501	26,198	13,382	11,407	16,907	17,280	15,894	8,498	-0-
Net change in plan fiduciary net position	8,709,682	(21,436,222)	9,838,516	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	75,733,270	97,169,492	87,330,976	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>\$ 84,442,952</u>	<u>\$ 75,733,270</u>	<u>\$ 97,169,492</u>	<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>\$ 3,775,401</u>	<u>\$ 10,600,401</u>	<u>\$ (11,432,532)</u>	<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	95.72%	87.72%	113.33%	105.84%	113.82%	104.83%	121.60%	112.50%	114.52%	128.41%
Covered payroll	\$ 9,840,085	\$ 10,155,381	\$ 13,959,143	\$ 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	38.37%	104.38%	-81.90%	-34.39%	-61.73%	-19.66%	-81.90%	-44.04%	-46.79%	-85.74%

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

SCHEDULE OF CONTRIBUTIONS

	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
12/31/2023	\$ 852,908	\$ 860,000	\$ (7,092)	\$ 9,840,085	8.74%
12/31/2022	\$ 390,233	\$ -0-	\$ 390,233	\$ 10,155,381	0.00%
12/31/2021	\$ 1,438,217	\$ 2,600,000	\$ (1,161,783)	\$ 13,959,143	18.63%
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%

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:

The scale applied to the table for generational mortality improvements has been updated from SOA improvement scale MP-2020 to SOA improvement scale MP-2021.

The retirement assumption for active participants was changed from a single point assumption at age 65 to an age graded table ranging from 2.5% at age 55 to 100% at age 70.

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	100% of terminated vested participants, and participants whose benefits are detailed in the 8th amendment, are assumed to retire at age 65 or current age if greater. For all others, the rates below apply.

Age	Percent
55-61	2.5%
62-64	20.0%
65	50.0%
66-69	20.0%
70+	100.0%

Mortality	PubG-2010 Sex Distinct Mortality with generational improvements beginning in 2010 based on improvement scale MP-2021
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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 Trustees
Hendricks Regional Health
Danville, Indiana

Report on the 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 financial statements of Hendricks Regional Health (Hendricks), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. We have also audited Hendricks' statement of fiduciary net position as of December 31, 2023 and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 28, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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' 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 or significant deficiencies 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' 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 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
June 28, 2024



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE *UNIFORM GUIDANCE***

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hendricks Regional Health's (Hendricks) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hendricks' major federal programs for the year ended December 31, 2023. Hendricks' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hendricks complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hendricks and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of Hendricks' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Hendricks' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hendricks' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Hendricks' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hendricks' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hendricks' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of Hendricks' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance*

We have audited the financial statements of Hendricks as of and for the year ended December 31, 2023 and have issued our report thereon dated June 28, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the *Uniform Guidance*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
June 28, 2024

HENDRICKS REGIONAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant ID #</u>	<u>Assistance Listing #</u>	<u>Federal Expenditures</u>
Major program			
U.S. Department of Health and Human Services			
COVID-19 - Provider Relief Fund	N/A	93.498	\$ 6,147,304
Total federal expenditures			<u>\$ 6,147,304</u>

See report on schedule of expenditures of federal awards as required by the *Uniform Guidance* on page 51.
See notes to schedule of expenditures of federal awards.

HENDRICKS REGIONAL HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hendricks Regional Health (Hendricks) under programs of the federal government for the year ended December 31, 2023 and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the *Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of Hendricks, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Hendricks.

2. SUMMARY OF SIGNIFICANT POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Hendricks has elected not to use the 10% de minimis indirect cost rate as allowed under the *Uniform Guidance*.

3. PASS-THROUGH FUNDS TO SUB-RECIPIENTS

During 2023, Hendricks did not pass-through funds to sub-recipients.

4. PROVIDER RELIEF FUNDS

During the COVID-19 pandemic, Hendricks received grants from the American Rescue Plan (ARP) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under terms and conditions of ARP and CARES, Hendricks is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS requires the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received. The following is a summary of PRF received, recognized as revenue and reported on the SEFA for COVID-19 Funding under Assistance Listing # 93.498:

Year	PRF		Reported on SEFA
	Received	Recognized	
2020	\$ 57,888,255	\$ 40,784,967	\$ -0-
2021	2,771,381	19,874,669	57,888,258
2022	6,147,304	5,847,304	2,771,378
2023	-0-	300,000	6,147,304
Total	<u>\$ 66,806,940</u>	<u>\$ 66,806,940</u>	<u>\$ 66,806,940</u>

5. FAIR MARKET VALUE OF DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During 2023, Hendricks did not receive donated personal protective equipment from federal sources.

HENDRICKS REGIONAL HEALTH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2023**

Section I - Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes none reported

Significant deficiency(s) identified that are not considered material weakness(es) noted? yes none reported

Noncompliance material to consolidated financial statements noted? yes no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes none reported

Significant deficiency(s) identified that are not considered material weakness(es) noted? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Identification of major program(s): Assistance listing # 93.498 COVID-19 - Provider Relief Fund

Threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II - Findings Related to Financial Statements Reported in Accordance with Government Auditing Standards:

No matters reported

Section III - Findings and Questioned Costs Relating to Federal Awards

No matters reported

Section IV - Summary Schedule of Prior Audit Findings

Not applicable