



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015 AND 2014

CPAs / ADVISORS



HENRY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital (Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation (The Foundation), a blended component unit, which statements reflect total assets of approximately \$37.8 million and \$37.6 million as of December 31, 2015 and 2014, respectively, and total revenues of approximately \$3.8 million and \$3.7 million, respectively, for the years then ended. Also, we did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$3.8 million and \$4.0 million as of December 31, 2015 and 2014, respectively, and total revenues of approximately \$20.7 million and \$20.2 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Trustees
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New Castle, Indiana

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

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

OPINION

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2015 and 2014, and the results of its operations, changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 audits 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.

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statement as a whole. The 2015 and 2014 Supplementary Information listed in the table of contents is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

Board of Trustees
Henry County Memorial Hospital
New Castle, Indiana

The 2015 and 2014 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to the Foundation and DMC, is based on the reports of other auditors, the 2015 and 2014 Supplementary Information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Hospital as of December 31, 2013, and the related statements of operations and changes in net position, and cash flows for the year then ended (not presented herein), and we expressed an unmodified opinion on those financial statements. That audit was conducted for purposes of forming an opinion on the financial statement as a whole. We did not audit the financial statements of the Foundation, which statements reflect total assets of approximately \$37.1 million as of December 31, 2013, and total revenues of approximately \$3.6 million, for the year then ended. Also, we did not audit the financial statements of DMC, which statements reflects total assets of approximately \$4.2 million as of December 31, 2013, and total revenues of approximately \$21.3 million, for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Foundation and DMC, is based solely on the reports of the other auditors. The 2013 information in the Supplemental Schedule of Hospital Operations – Years Ended December 31, 2014 and 2013 is presented for purposes of additional analysis. 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 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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, which insofar as it related to the Foundation and DMC, is based on the reports of other auditors, the 2013 information in the Supplemental Schedule of Hospital Operations – Years Ended December 31, 2014 and 2013 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

Blue & Co., LLC

Indianapolis, Indiana
April 29, 2016

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

Management's discussion and analysis of Henry County Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCMH Diversified Management Corporation (DMC), collectively referred to as the Hospital.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

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

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

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

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and deferred outflows compared to its liabilities reported in the Balance Sheet on pages 4-5. The Hospital's net position increased by approximately \$10.4 million or 11.1% from 2014 to 2015 and increased by approximately \$11.5 million or 13.9% from 2013 to 2014 as you can see from Table 1.

Table 1: Assets, Deferred Outflows, Liabilities and Net Position:

	2015	2014	2015-2014 Change	2013
Assets and deferred outflows				
Current assets	\$ 79,430,261	\$ 72,093,057	\$ 7,337,204	\$ 43,402,718
Capital assets, net	36,493,019	31,852,451	4,640,568	32,886,921
Other investments and assets	45,418,240	46,390,313	(972,073)	46,821,184
Deferred outflows	-0-	131,932	(131,932)	150,124
Total assets and deferred outflows	<u>\$ 161,341,520</u>	<u>\$ 150,467,753</u>	<u>\$ 10,873,767</u>	<u>\$ 123,260,947</u>
Liabilities				
Current liabilities	\$ 39,404,578	\$ 38,160,859	\$ 1,243,719	\$ 21,366,414
Long term debt, net of current portion	17,039,000	17,922,948	(883,948)	19,078,742
Other long term liabilities	584,613	467,690	116,923	350,767
Total liabilities	<u>\$ 57,028,191</u>	<u>\$ 56,551,497</u>	<u>\$ 476,694</u>	<u>\$ 40,795,923</u>
Net Position				
Net investment in capital assets	\$ 18,320,060	\$ 12,773,712	\$ 5,546,348	\$ 12,580,786
By donor - expendable - for capital acquisition	1,056,822	1,065,693	(8,871)	1,055,003
Unrestricted	84,936,447	80,076,851	4,859,596	68,829,235
Total net position	<u>\$ 104,313,329</u>	<u>\$ 93,916,256</u>	<u>\$ 10,397,073</u>	<u>\$ 82,465,024</u>

The increase in current assets relates primarily to cash generated from net income during 2015 along with the continued expansion into long-term care. The decreases in long term debt related to the refinancing of the 2009 and 2012 bonds. The increase in current liabilities relates to the Hospital's continued expansion into long-term care.

It should also be noted that there was an increase in total net position from 2013 to 2015 of approximately \$21.8 million or 27.0%, showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION AND CASH FLOWS

In 2015, the Hospital's operating income increased by approximately \$486,000 as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2015-2014 Change	2013
Operating revenues				
Net patient service revenues	\$ 264,477,644	\$ 207,681,261	\$ 56,796,383	\$ 140,174,822
Other operating revenues	6,700,931	6,755,155	(54,224)	4,605,635
Total operating revenues	271,178,575	214,436,416	56,742,159	144,780,457
Operating expenses				
Salaries and benefits	54,760,115	50,560,374	4,199,741	49,989,013
Medical supplies and drugs	20,590,758	18,744,056	1,846,702	15,009,084
Depreciation and amortization	5,292,112	5,006,306	285,806	5,204,985
Other operating expenses	178,883,940	128,959,718	49,924,222	67,307,839
Total operating expenses	259,526,925	203,270,454	56,256,471	137,510,921
Operating income	11,651,650	11,165,962	485,688	7,269,536
Non-operating revenues and expenses				
Investment income (loss)	(939,732)	796,463	(1,736,195)	4,858,501
Other non-operating revenues and expenses, net	(314,845)	(511,193)	196,348	(178,406)
Total non-operating revenues (expenses)	(1,254,577)	285,270	(1,539,847)	4,680,095
Change in net position	10,397,073	11,451,232	(1,054,159)	11,949,631
Net position beginning of year	93,916,256	82,465,024	11,451,232	70,515,393
Net position end of year	\$ 104,313,329	\$ 93,916,256	\$ 10,397,073	\$ 82,465,024

OPERATING INCOME

The addition of two long-term care facilities during 2015 and eight long-term care facilities during 2014 substantially increased net patient service revenues. These facilities are leased and managed by various management organizations, which substantially increased other operating expenses during the year.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 (WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

NONOPERATING INCOME

Nonoperating income was primarily driven by a decrease in investment income, with a loss of approximately \$940,000 in 2015 and a gain of approximately \$796,000 in 2014. This can be attributed to decreased market conditions in 2015 compared to 2014.

Table 3: Hospital Cash Flows

	2015	2014	2015 - 2014 Change	2013
Cash flows from activities				
Operating	\$ 22,462,025	\$ 16,808,054	\$ 5,653,971	\$ 8,916,243
Noncapital financing	356,583	322,968	33,615	481,802
Capital and related financing	(11,633,602)	(6,241,473)	(5,392,129)	(5,092,825)
Investing	328,808	1,477,892	(1,149,084)	(392,320)
	<u>\$ 11,513,814</u>	<u>\$ 12,367,441</u>	<u>\$ (853,627)</u>	<u>\$ 3,912,900</u>

In 2015, the Hospital continued to generate strong cash flows from operations with approximately \$22.8 million generated in 2015 and approximately \$16.8 million generated in 2014. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

CAPITAL ASSETS

During 2015, the Hospital's net capital assets have increased by approximately \$4.6 million. This compares to a decrease of approximately \$1 million during 2014. The change in capital assets is outlined in the following table:

	2015	2014	2015-2014 Change	2013
Land and improvements	\$ 4,774,319	\$ 4,739,593	\$ 34,726	\$ 4,677,163
Buildings and improvements	52,692,060	51,867,681	824,379	51,043,935
Equipment	57,270,784	53,358,150	3,912,634	50,832,109
Construction in progress	4,560,855	43,626	4,517,229	97,555
Total capital assets	<u>119,298,018</u>	<u>110,009,050</u>	<u>9,288,968</u>	<u>106,650,762</u>
Less accumulated depreciation	<u>82,804,999</u>	<u>78,156,599</u>	<u>4,648,400</u>	<u>73,763,841</u>
Capital assets, net	<u>\$ 36,493,019</u>	<u>\$ 31,852,451</u>	<u>\$ 4,640,568</u>	<u>\$ 32,886,921</u>

Net capital assets have increased due to capital additions. The Hospital continually evaluates facilities and equipment to ensure that everything is upgraded as necessary. See the notes to the consolidated financial statements for additional information about capital assets.

HENRY COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014 AND 2013)

DEBT

The Hospital has the following debt outstanding which approximates \$18.2 million as of December 31, 2015:

- 2015 tax-exempt revenue bonds
- Capital lease obligations

More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

BAD DEBT AND CHARITY CARE

Bad debt and charity care decreased in 2015 compared to 2014 experience due to the success of ClaimAid in helping eligible patients receive Medicaid coverage and due to the expansion of coverage under the Affordable Care Act.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2012	\$10,008,823	\$3,489,418	\$13,498,241	
2013	\$8,195,281	\$3,407,242	\$11,602,523	-14%
2014	\$8,313,843	\$2,977,492	\$11,291,335	-3%
2015	\$5,448,009	\$1,991,900	\$7,439,909	-34%

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide fiscal reporting to patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller at Henry County Hospital, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS

	2015	2014
Current assets		
Cash and money market deposit accounts	\$ 38,844,920	\$ 27,215,371
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$6,300,000 in 2015 and \$7,500,000 in 2014	26,020,395	26,418,148
Supplies and other current assets	13,277,778	17,231,998
Due from related parties	226,245	130,651
Current portion of assets whose use is limited	1,060,923	1,096,889
Total current assets	<u>79,430,261</u>	<u>72,093,057</u>
Investments	25,235,241	24,278,051
Assets whose use is limited		
Internally designated	16,884,682	18,314,787
By donor - expendable - for capital acquisition	1,056,822	1,065,693
	<u>17,941,504</u>	<u>19,380,480</u>
Less current portion	1,060,923	1,096,889
Total assets whose use is limited	<u>16,880,581</u>	<u>18,283,591</u>
Capital assets, net	36,493,019	31,852,451
Other assets	3,302,418	3,828,671
Total assets	<u>161,341,520</u>	<u>150,335,821</u>
Deferred outflows	-0-	131,932
Total assets and deferred outflows	<u>\$ 161,341,520</u>	<u>\$ 150,467,753</u>

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014

LIABILITIES AND NET POSITION

	2015	2014
Current liabilities		
Current portion of long-term debt	\$ 1,133,959	\$ 1,155,791
Accounts payable and accrued expenses	32,346,851	31,583,031
Accrued wages and related liabilities	4,217,416	4,305,536
Estimated third-party settlements	1,706,352	1,116,501
Total current liabilities	39,404,578	38,160,859
Other long-term liabilities	584,613	467,690
Long-term debt, net of current portion	17,039,000	17,922,948
Total liabilities	57,028,191	56,551,497
Net position		
Unrestricted	84,936,447	80,076,851
Net investment in capital assets	18,320,060	12,773,712
Restricted		
By donor - expendable - for capital acquisition	1,056,822	1,065,693
Total net position	104,313,329	93,916,256
Total liabilities and net position	\$ 161,341,520	\$ 150,467,753

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating revenue		
Net patient service revenue	\$ 264,477,644	\$ 207,681,261
Other revenue	6,700,931	6,755,155
Total revenue	271,178,575	214,436,416
Operating expenses		
Salaries and benefits	54,760,115	50,560,374
Medical professional fees	1,524,840	1,241,981
Purchased services	116,041,304	76,912,100
Medical supplies and drugs	20,590,758	18,744,056
Other supplies	14,412,805	8,844,368
Depreciation and amortization	5,292,112	5,006,306
Utilities	4,734,710	4,183,779
Rent	14,597,286	12,445,991
Hospital assessment fee	1,997,366	2,395,570
Other	25,575,629	22,935,929
Total expenses	259,526,925	203,270,454
Operating income	11,651,650	11,165,962
Nonoperating revenues (expenses)		
Investment income (loss)	(939,732)	796,463
Interest expense	(810,219)	(953,393)
Other nonoperating	495,374	442,200
Total nonoperating revenues (expenses)	(1,254,577)	285,270
Change in net position	10,397,073	11,451,232
Net position		
Beginning of year	93,916,256	82,465,024
End of year	\$ 104,313,329	\$ 93,916,256

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 263,467,882	\$ 199,544,598
Cash paid to employees for wages and benefits	(54,848,235)	(50,197,160)
Cash paid to vendors for goods and services	(192,724,387)	(139,205,010)
Other operating receipts, net	6,566,765	6,665,626
Net cash flows from operating activities	22,462,025	16,808,054
Cash flows from noncapital financing activities		
Other nonoperating	356,583	322,968
Net cash flows from noncapital financing activities	356,583	322,968
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(9,830,118)	(3,988,998)
Loss (gain) on disposal of property and equipment	5,044	(3,000)
Proceeds from sale of property and equipment	1,215	25,058
Interest on long-term debt	(903,963)	(1,047,137)
Proceeds from 2015 bonds issuance	18,000,000	-0-
Principal payments on long-term debt	(18,905,780)	(1,227,396)
Net cash flows from capital and related financing activities	(11,633,602)	(6,241,473)
Cash flows from investing activities		
Investment income and other non-operating	(707,197)	1,009,439
Change in other assets, net	813,320	2,775,185
Purchases of investments in assets whose use is limited - internally designated, held by trustee, and investments	(9,757,290)	(10,509,809)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by trustee and investments	9,971,104	8,213,767
Change in assets whose use is limited - restricted by donor, net	8,871	(10,690)
Net cash flows from investing activities	328,808	1,477,892
Net change in cash and cash equivalents	11,513,814	12,367,441
Cash and cash equivalents		
Beginning of year	27,524,179	15,156,738
End of year	\$ 39,037,993	\$ 27,524,179

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

Reconciliation of operating income to net cash flows from operating activities	2015	2014
Operating income	\$ 11,651,650	\$ 11,165,962
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	5,292,112	5,006,306
Bad debts	5,448,009	8,313,843
Changes in assets and liabilities		
Patient accounts receivable	(5,050,256)	(14,128,075)
Supplies and other current assets	3,954,220	(10,964,525)
Accounts payable and accrued expenses	643,231	16,473,025
Accrued salaries and related liabilities	(88,120)	363,214
Other long-term liabilities	116,923	116,923
Due from (to) related parties	(95,595)	388,242
Estimated third-party settlements	589,851	73,139
Net cash flows from operating activities	\$ 22,462,025	\$ 16,808,054
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 38,844,920	\$ 27,215,371
In assets whose use is limited - internally designated	193,073	308,808
Total cash and cash equivalents	\$ 39,037,993	\$ 27,524,179
 Supplemental cash flows information		
Property included in accounts payable	\$ 120,590	\$ -0-

See accompanying notes to consolidated financial statements.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

The Board of County Commissioners of Henry County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between Henry County and the Hospital. For these reasons, the Hospital is considered a component unit of Henry County.

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing facilities for the Hospital. The Association has no assets, no liabilities and conducts no operations.

Pursuant to the provision of long-term care, the Hospital owns the operations of thirty-one long term care facilities by way of an arrangement with the managers of the facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital 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 the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2012 through 2015, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital 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 April 30, 2017. 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. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Blended Component Units

Henry County Hospital Foundation, Inc. (the Foundation) is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2015 and 2014.

All intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Supplies and Other Current Assets

Supplies and other current assets consist primarily of drugs, medical supplies, prepaid expenses, and other receivables.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Enterprise Fund Accounting

The Hospital uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable, Net and Net Patient Service Revenue

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Hospital's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2015, the Hospital's allowance for uncollectible accounts changed from \$7,500,000 to \$6,300,000. As of December 31, 2015, the allowance for uncollectible accounts of \$6,300,000 was comprised of approximately \$4,300,000 reserved for self-pay balances and \$2,000,000 reserved for third-party payor balances. As of December 31, 2014, the allowance for uncollectible accounts of \$7,500,000 was comprised of \$6,400,000 reserved for self-pay balances and \$1,100,000 reserved for third-party payor balances.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The Hospital did not recognize a change in net position in 2015 and 2014 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Net revenues from Medicare and Medicaid programs accounted for approximately 27 percent and 38 percent for the year ended 2015 and 29 percent and 38 percent for the year ended 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

Assets Whose Use Is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service and donor restricted funds. These investments consist primarily of cash, money market mutual funds, mutual funds, exchange traded funds, and common stocks. Investment income (loss) is reported as nonoperating income in the consolidated statements of operations and changes in net position.

Capital Assets

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 \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

Description	Range of Useful Lives
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major movable equipment	3 - 20 years

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Other Assets

Other assets consist primarily of investments in affiliates and the value of the split dollar life insurance policy on a key employee. See footnotes 10 and 14 for further information.

Due from Related Parties

Amounts due from related parties consist of amounts owed from the Hospital's joint venture with St. Vincent Health. See footnote 14 for further information.

Deferred Outflows

Deferred outflows relate to prior unamortized deferred losses on bond refundings.

Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

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 inpatient providers. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2015 and 2014, the Hospital recognized HAF Program expense of approximately \$2,000,000 and \$2,400,000 respectively, which resulted in increased Medicaid reimbursement. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the Hospital's principal activity. Nonoperating revenues include contributions received and other nonoperating activities. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Position

Net position of the Hospital is classified in various components. Net position - net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets, or restricted net position.

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual computed on the hourly rate and PDO balance per employee, and the consolidated financial statements recognize this liability. Accumulated PDO is reported as a current liability in the approximate amount of \$2,106,000 and \$1,755,000 for 2015 and 2014, respectively, and is included within accrued wages and related liabilities in the consolidated balance sheets.

Other Long-Term Liabilities

Other long-term liabilities consist of the deferred liability for the salary continuation plan for a key employee that is due in over one year.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

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

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2015 and 2014, the Hospital recognized approximately \$646,000 and \$1,838,000, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

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

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

Risk Management

The Hospital 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; medical malpractice; and employee health, dental, and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2015 or 2014.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2014. 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).

DMC is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital. DMC has filed its federal and state income tax returns for periods through December 31, 2014. These income tax returns are generally open to examination by 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).

DMC has federal net operating loss carry forwards to reduce future taxable income of approximately \$33,081,000, and a similar amount for state income taxes as of December 31, 2015. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2015 and 2014. These federal and state carry forwards begin to expire in 2023. The valuation allowance is established to reduce the deferred tax asset to the amount expected to be realized when it is more likely than not that all or some portion of the deferred tax asset will not be realized.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and DMC 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, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and DMC are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2015 and 2014 were approximately \$1,992,000 and \$2,977,000, respectively.

Of the Hospital's total expenses reported, an estimated \$1,250,000 and \$1,844,000, arose from providing services to charity patients during the years ended December 31, 2015 and December 31, 2014, 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 costs to charges is calculated based on the Hospital's total expenses (including interest expense) divided by gross patient service revenue.

Litigation

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

Reclassifications

Certain amounts from 2014 have been reclassified in order to conform to the 2015 presentation.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Investment in Affiliate

The Hospital has an equity interest in a joint venture. This investment is recorded on the equity method of accounting in the Hospital's consolidated financial statements. The total equity interest in this joint venture was approximately \$922,000 and \$1,112,000 as of December 31, 2015 and 2014. This balance is included within other assets on the consolidated balance sheets. See footnote 14 for further information.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is April 29, 2016.

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 are as follows:

	2015	2014
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 20,160,407	\$ 19,697,821
Receivable from Medicare	12,156,082	11,073,687
Receivable from Medicaid	12,964,149	17,475,717
Total patient accounts receivable	45,280,637	48,247,225
Less contractual allowances	(12,988,771)	(14,325,391)
Less allowances for uncollectible accounts	(6,271,471)	(7,503,686)
Patient accounts receivable, net	<u>\$ 26,020,395</u>	<u>\$ 26,418,148</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,554,103	\$ 3,614,142
Payable to suppliers	32,346,851	31,583,031
Accrued employee health benefit claims	663,313	691,394
Total accounts payable and accrued expenses	<u>\$ 36,564,267</u>	<u>\$ 35,888,567</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

3. ASSETS WHOSE USE IS LIMITED

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31 is as follows:

	2015	2014
Board designated		
Funded depreciation		
Investments	\$ 16,691,609	\$ 18,005,979
Cash	193,073	308,808
Donor restricted assets		
Investments	1,056,822	1,065,693
Total assets limited to use	\$ 17,941,504	\$ 19,380,480

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 Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

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 common stocks.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2015 and 2014, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2015					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 41,766,856	\$ 41,766,856	\$ -0-	\$ -0-	\$ -0-
Common stocks	1,213,916	1,213,916	-0-	-0-	-0-
Money market mutual funds	195,973	195,973	-0-	-0-	-0-
	\$ 43,176,745	\$ 43,176,745	\$ -0-	\$ -0-	\$ -0-

December 31, 2014					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 37,074,514	\$ 37,074,514	\$ -0-	\$ -0-	\$ -0-
Exchange-traded funds	2,260,054	2,260,054	-0-	-0-	-0-
Common stocks	3,593,911	3,593,911	-0-	-0-	-0-
Money market mutual funds	730,052	730,052	-0-	-0-	-0-
	\$ 43,658,531	\$ 43,658,531	\$ -0-	\$ -0-	\$ -0-

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital’s investment policy authorizes it 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 policy also requires that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2015 and 2014:

	2015	2014
Carrying amount		
Deposits	\$ 38,844,920	\$ 27,215,371
Investments	43,176,745	43,658,531
	\$ 82,021,665	\$ 70,873,902
Included in the balance sheet captions		
Cash and cash equivalents	\$ 38,844,920	\$ 27,215,371
Investments	25,235,241	24,278,051
Internally designated	16,884,682	18,314,787
By donor - expendable - for capital acquisition	1,056,822	1,065,693
	\$ 82,021,665	\$ 70,873,902

Investment income (loss) for 2015 and 2014 is summarized as follows:

	2015	2014
Unrealized losses	\$ (1,834,325)	\$ (1,916,679)
Realized gains (losses)	(651,528)	1,395,473
Interest and dividends	1,546,121	1,317,669
Total investment income (loss)	\$ (939,732)	\$ 796,463

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2015 and 2014:

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds and exchange-traded funds*: Valued at the daily closing price as reported by the fund. Mutual funds and exchange-traded funds held by the Hospital are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds and exchange-traded funds held by the Hospital are deemed to be actively traded.
- *Money market mutual funds*: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Bond Fund	\$ 16,972,688	\$ 16,972,688	\$ -0-	\$ -0-
Large Blend	14,060,847	14,060,847	-0-	-0-
Large Growth	4,089,656	4,089,656	-0-	-0-
Mid Growth	3,246,892	3,246,892	-0-	-0-
Small Blend	857,276	857,276	-0-	-0-
Small Value	721,544	721,544	-0-	-0-
Other	1,817,953	1,817,953	-0-	-0-
Money market mutual funds	195,973	-0-	195,973	-0-
Common stocks:				
Basic Industries	50,000	50,000	-0-	-0-
Capital Goods	126,786	126,786	-0-	-0-
Communications	6,583	6,583	-0-	-0-
Consumer	187,108	187,108	-0-	-0-
Energy	59,078	59,078	-0-	-0-
Finance	220,718	220,718	-0-	-0-
Health Care	175,093	175,093	-0-	-0-
Materials	4,350	4,350	-0-	-0-
Services	90,186	90,186	-0-	-0-
Technology	170,048	170,048	-0-	-0-
Transportation	45,948	45,948	-0-	-0-
Utilities	61,754	61,754	-0-	-0-
Other	16,264	16,264	-0-	-0-
Total investments & assets whose use is limited	<u>\$ 43,176,745</u>	<u>\$ 42,980,772</u>	<u>\$ 195,973</u>	<u>\$ -0-</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Bond Fund	\$ 14,183,478	\$ 14,183,478	\$ -0-	\$ -0-
Large Blend	11,882,030	11,882,030	-0-	-0-
Large Growth	2,800,673	2,800,673	-0-	-0-
Mid Growth	5,400,033	5,400,033	-0-	-0-
Small Blend	1,079,662	1,079,662	-0-	-0-
Small Value	775,863	775,863	-0-	-0-
Other	952,775	952,775	-0-	-0-
Money market mutual funds	730,052	-0-	730,052	-0-
Exchange-traded funds	2,260,054	2,260,054	-0-	-0-
Common stocks:				
Basic Industries	268,666	268,666	-0-	-0-
Capital Goods	213,998	213,998	-0-	-0-
Consumer	435,951	435,951	-0-	-0-
Energy	192,213	192,213	-0-	-0-
Finance	522,669	522,669	-0-	-0-
Health Care	496,614	496,614	-0-	-0-
Materials	71,116	71,116	-0-	-0-
Services	498,961	498,961	-0-	-0-
Technology	588,960	588,960	-0-	-0-
Transportation	53,419	53,419	-0-	-0-
Utilities	105,456	105,456	-0-	-0-
Other	145,888	145,888	-0-	-0-
Total investments & assets whose use is limited	<u>\$ 43,658,531</u>	<u>\$ 42,928,479</u>	<u>\$ 730,052</u>	<u>\$ -0-</u>

The Hospital's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2015 and 2014.

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

Long-term debt: The fair value of the Hospital's variable rate debt is based on current traded value. The carrying value of loans payable and capital lease obligations approximates fair value based on the variable nature of its primary debt and current fixed rates available to similar entities with similar credit ratings.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2015 and 2014, follows:

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
Land	\$ 2,453,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,286,359	34,726	-0-	-0-	2,321,085
Buildings and improvements	51,867,681	662,495	-0-	161,884	52,692,060
Fixed equipment	15,735,005	54,316	-0-	-0-	15,789,321
Major equipment	37,623,145	4,399,468	(541,150)	-0-	41,481,463
Construction in progress	43,626	4,679,113	-0-	(161,884)	4,560,855
Total capital assets	110,009,050	9,830,118	(541,150)	-0-	119,298,018
Less accumulated depreciation:					
Land improvements	(2,156,907)	(18,730)	-0-	-0-	(2,175,637)
Buildings and improvements	(34,683,762)	(1,977,158)	-0-	-0-	(36,660,920)
Fixed equipment	(13,666,418)	(523,044)	-0-	-0-	(14,189,462)
Major equipment	(27,649,512)	(2,664,359)	534,891	-0-	(29,778,980)
Total accumulated depreciation	(78,156,599)	(5,183,291)	534,891	-0-	(82,804,999)
Capital assets, net	\$ 31,852,451	\$ 4,646,827	\$ (6,259)	\$ -0-	\$ 36,493,019
	Balance December 31, 2013	Additions	Retirements	Transfers	Balance December 31, 2014
Land	\$ 2,448,234	\$ 5,000	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,286,359	-0-	-0-	-0-	2,286,359
Buildings and improvements	50,951,714	915,967	-0-	-0-	51,867,681
Fixed equipment	14,715,038	1,019,967	-0-	-0-	15,735,005
Major equipment	36,131,891	2,005,395	(586,554)	72,413	37,623,145
Construction in progress	73,370	42,669	-0-	(72,413)	43,626
Total capital assets	106,606,606	3,988,998	(586,554)	-0-	110,009,050
Less accumulated depreciation:					
Land improvements	(2,112,491)	(44,416)	-0-	-0-	(2,156,907)
Buildings and improvements	(32,729,489)	(1,954,273)	-0-	-0-	(34,683,762)
Fixed equipment	(13,228,010)	(438,408)	-0-	-0-	(13,666,418)
Major equipment	(25,649,695)	(2,564,313)	564,496	-0-	(27,649,512)
Total accumulated depreciation	(73,719,685)	(5,001,410)	564,496	-0-	(78,156,599)
Capital assets, net	\$ 32,886,921	\$ (1,012,412)	\$ (22,058)	\$ -0-	\$ 31,852,451

Construction in progress as of December 31, 2015 relates to construction on the surgery suite. The estimated cost to complete the project as of December 31, 2015 is approximately \$5,500,000, of which all has been contractually committed.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

7. LONG-TERM DEBT

During March 2015, the Hospital borrowed \$18,000,000 from the Indiana Financing Authority (the Authority) and issued Health Facility Revenue Bonds Series 2015 (Series 2015 Bonds) to refund the Series 2009 and Series 2012 bonds. The Series 2015 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes.

The Hospital and Authority then entered into an agreement with a Regions bank (Regions) whereby Regions purchased from the Authority all of the Series 2015 Bonds in a private placement. The agreement provided that Regions would hold the Series 2015 Bonds during the Bank Purchase Mode Period which runs through March 2030. During the Bank Purchase Mode Period, the Series 2015 Bonds would bear interest at the Bank Purchase Rate (1.17% plus 67% of 1M BBA LIBOR), reset monthly, with principal and interest payments determined using a 15-year amortization schedule. The Series 2015 bonds had an interest rate of 1.33% at December 31, 2015, and are collateralized by Hospital revenues.

The net proceeds of approximately \$17.8 million (after bond issuance costs of approximately \$200,000) were used to pay all outstanding principal and interest on the called 2009 and 2012 Series Bonds. These transactions created a deferred loss on the refunding of the 2009 and 2012 bonds, the effect of which is immaterial to these consolidated financial statements as a whole.

Annual bond payments for the 2015 bonds commenced during March 2016 and continue through March 2030 ranging from approximately \$961,000 to \$1,469,000.

In January 2012, the Hospital borrowed approximately \$5,600,000 from the Indiana Financing Authority (the Authority), and the Health Facility Revenue Bonds Series 2012 (Series 2012 Bonds) to fund future capital projects. The Series 2012 Bonds bear interest at rates as determined by daily, weekly, flexible, semiannual, or fixed modes. The Series 2012 Bonds are secured by an interest in the gross revenues of the Hospital. The Series 2012 Bonds were refunded with the Series 2015 Bond issuance.

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. The Series 2009 Bonds were refunded with the Series 2015 Bond issuance.

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.73% to 8.51%, collateralized by leased equipment with costs of approximately \$2,100,000 and \$2,100,000 as of December 31, 2015 and 2014, respectively.

Accumulated depreciation on capital leases was approximately \$1,400,000 and \$1,100,000 at December 31, 2015 and 2014, respectively.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

A summary of long-term debt borrowings, payments and balances at and for the years ended December 31 follows:

	Balance December 31, 2014	Additional borrowings	Payments	Balance December 31, 2015	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 13,446,128	\$ -0-	\$ 13,446,128	\$ -0-	\$ -0-	\$ -0-
Demand Revenue Bonds, Series 2012	5,144,798	-0-	5,144,798	-0-	-0-	-0-
Demand Revenue Bonds, Series 2015	-0-	18,000,000	-0-	18,000,000	961,000	17,039,000
Capital leases	487,813	-0-	314,854	172,959	172,959	-0-
	<u>\$ 19,078,739</u>	<u>\$ 18,000,000</u>	<u>\$ 18,905,780</u>	<u>\$ 18,172,959</u>	<u>\$ 1,133,959</u>	<u>\$ 17,039,000</u>

	Balance December 31, 2013	Additional borrowings	Payments	Balance December 31, 2014	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 14,032,472	\$ -0-	\$ 586,344	\$ 13,446,128	\$ 610,502	\$ 12,835,626
Demand Revenue Bonds, Series 2012	5,369,679	-0-	224,881	5,144,798	230,435	4,914,363
Capital leases	903,984	-0-	416,171	487,813	314,854	172,959
	<u>\$ 20,306,135</u>	<u>\$ -0-</u>	<u>\$ 1,227,396</u>	<u>\$ 19,078,739</u>	<u>\$ 1,155,791</u>	<u>\$ 17,922,948</u>

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$9.2 million in cash and investments with Regions. The Hospital believes it is in compliance with all covenants as of December 31, 2015 and 2014.

Scheduled principal repayments on long-term debt are as follows:

<u>Years Ending December 31,</u>	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2016	\$ 961,000	\$ 270,000	\$ 172,959	\$ 1,184
2017	994,000	255,585	-0-	-0-
2018	1,025,000	240,675	-0-	-0-
2019	1,055,000	225,300	-0-	-0-
2020	1,087,000	209,475	-0-	-0-
2021-2025	5,956,000	792,510	-0-	-0-
2026-2030	6,922,000	1,217,715	-0-	-0-
	<u>\$ 18,000,000</u>	<u>\$ 3,211,260</u>	<u>\$ 172,959</u>	<u>\$ 1,184</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2015 and 2014 consists of the following:

	2015	2014
Inpatient services	\$ 63,496,028	\$ 59,036,877
Outpatient services	153,084,748	141,591,359
Long term care	198,404,728	129,075,700
Gross patient service revenue	<u>414,985,504</u>	<u>329,703,936</u>
Contractual allowances	143,067,951	110,731,340
Bad debts	5,448,009	8,313,843
Charity care	1,991,900	2,977,492
Deductions from revenue	<u>150,507,860</u>	<u>122,022,675</u>
Net patient service revenue	<u>\$ 264,477,644</u>	<u>\$ 207,681,261</u>

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Hospital's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Hospital uses an ability-to-pay schedule based on income and dependents. The Hospital also adjusts charges based on contractual agreements with third-party payors. The Hospital maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Hospital has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the procedures performed and are subject to review by the Program. Medicare reimbursements are subject to audit by Medicare. Provisions have been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

9. PENSION PLANS

Plan Description

The Hospital has a defined contribution pension plan as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes the financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at the Board approved rate.

The Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages. Hospital contributions to the plan for 2015 and 2014 were approximately \$1,344,000 and \$1,398,000, respectively.

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

10. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital has a Split-Dollar Life Insurance Agreement (the Agreement) for a key employee that is recorded at contract value in Other Assets at approximately \$2,381,000 and \$2,287,000 as of December 31, 2015 and 2014, respectively. The Hospital is the sole and absolute owner of the related life insurance policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the retirement date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$300,000 per individual with an unlimited specific lifetime maximum reimbursement per covered person and no aggregate limit. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$5,245,000 and \$5,283,000 for the years ended December 31, 2015 and 2014, respectively.

12. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of approximately \$1,057,000 and \$1,066,000 at December 31, 2015 and 2014, respectively, consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

13. MALPRACTICE INSURANCE

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

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

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

14. INVESTMENT IN AFFILIATE

During 2011, the Hospital entered into an operating agreement with St. Vincent Health, Inc. to form Henry County Hospital St. Vincent Health Catheterization Lab Services, LLC (Cath Lab). The Hospital contributed \$1,800,000 to obtain a 50% equity interest in the new company whose purpose is to operate a cardiac catheterization laboratory within the Hospital. The agreement will continue until the Company is dissolved. The investment is accounted for by the equity method.

As a result of this joint venture, the Hospital recognized a loss during 2015 and 2014 of approximately \$189,000 and \$222,000, respectively, related to changes in equity of the Cath Lab. The loss is included within other operating revenue in the consolidated statements of operations and changes in net position.

15. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2015 and 2014 was as follows:

	Receivables		Revenues	
	2015	2014	2015	2014
Self pay	22%	25%	7%	4%
Medicare and Medicaid	55%	59%	70%	62%
Other commercial	23%	16%	23%	34%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

16. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, DMC and the Foundation. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2015, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	DMC	Foundation	Total
Assets:			
Cash and cash equivalents	\$ 541,721	\$ 219,018	\$ 760,739
Patient accounts receivable, net	2,296,434	-0-	2,296,434
Supplies and other current assets	819,994	113,530	933,524
Due from Hospital	28,513	-0-	28,513
Total current assets	3,686,662	332,548	4,019,210
Investments	-0-	25,235,241	25,235,241
Assets whose use is limited - by donor	-0-	1,056,822	1,056,822
Capital assets, net	83,453	11,141,231	11,224,684
Other assets	38,837	-0-	38,837
Total assets	\$ 3,808,952	\$ 37,765,842	\$ 41,574,794
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 73,036	\$ 73,036
Accounts payable and accrued expenses	665,764	168,817	834,581
Due to Hospital	37,569,528	269,829	37,839,357
Total current liabilities	38,235,292	511,682	38,746,974
Long-term debt, net of current portion	-0-	1,294,964	1,294,964
Total liabilities	38,235,292	1,806,646	40,041,938
Net position			
Unrestricted net position (deficit)	(34,509,793)	25,129,143	(9,380,650)
Net investment in capital assets	83,453	9,773,231	9,856,684
Restricted by donor for capital acquisition	-0-	1,056,822	1,056,822
Total net position	(34,426,340)	35,959,196	1,532,856
Total liabilities and net position	\$ 3,808,952	\$ 37,765,842	\$ 41,574,794

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 20,720,307	\$ 1,108,750	\$ 21,829,057
Other revenue	-0-	2,692,781	2,692,781
Total operating revenues	<u>20,720,307</u>	<u>3,801,531</u>	<u>24,521,838</u>
Operating expenses			
Salaries and benefits	12,331,788	320,261	12,652,049
Medical professional fees	-0-	-0-	-0-
Purchased services	4,214,916	253,178	4,468,094
Medical supplies and drugs	8,447,162	-0-	8,447,162
Other supplies	-0-	14,254	14,254
Depreciation and amortization	14,321	656,676	670,997
Utilities	115,171	234,660	349,831
Rent	528,421	-0-	528,421
Other	690,589	1,638,696	2,329,285
Total operating expenses	<u>26,342,368</u>	<u>3,117,725</u>	<u>29,460,093</u>
Gain (loss) from operations	(5,622,061)	683,806	(4,938,255)
Non-operating revenues (expenses)			
Investment income (loss)	200	(665,733)	(665,533)
Interest expense	(46,872)	(22,186)	(69,058)
Other nonoperating	138,791	56,248	195,039
Total nonoperating revenues (expenses)	<u>92,119</u>	<u>(631,671)</u>	<u>(539,552)</u>
Change in net position (deficit)	(5,529,942)	52,135	(5,477,807)
Net position - beginning of year	(28,896,398)	35,907,061	7,010,663
Net position - end of year	<u>\$ (34,426,340)</u>	<u>\$ 35,959,196</u>	<u>\$ 1,532,856</u>
Cash flows from activities			
Operating	\$ 198,781	\$ 1,547,316	\$ 1,746,097
Noncapital financing	-0-	56,248	56,248
Capital and related financing	(75,685)	(163,468)	(239,153)
Investing	138,991	(1,561,304)	(1,422,313)
Net change in cash and cash equivalents	<u>262,087</u>	<u>(121,208)</u>	<u>140,879</u>
Cash - beginning of year	279,634	340,226	619,860
Cash - end of year	<u>\$ 541,721</u>	<u>\$ 219,018</u>	<u>\$ 760,739</u>

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2014, and a summary of the related statements of operations, changes in net position, and cash flows for the year then ended:

	DMC	Foundation	Total
Assets:			
Cash and cash equivalents	\$ 279,634	\$ 340,226	\$ 619,860
Patient accounts receivable, net	2,660,353	-0-	2,660,353
Supplies and other current assets	922,885	197,011	1,119,896
Due from Hospital	18,623	-0-	18,623
Total current assets	3,881,495	537,237	4,418,732
Investments	-0-	24,278,051	24,278,051
Assets whose use is limited - by donor	-0-	1,065,693	1,065,693
Capital assets, net	68,961	11,605,753	11,674,714
Other assets	38,837	143,377	182,214
Total assets	\$ 3,989,293	\$ 37,630,111	\$ 41,619,404
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 58,902	\$ 58,902
Accounts payable and accrued expenses	454,633	212,762	667,395
Due to Hospital	32,431,058	102,531	32,533,589
Total current liabilities	32,885,691	374,195	33,259,886
Long-term debt, net of current portion	-0-	1,348,855	1,348,855
Total liabilities	32,885,691	1,723,050	34,608,741
Net position			
Unrestricted net position (deficit)	(28,965,359)	24,643,372	(4,321,987)
Net investment in capital assets	68,961	10,197,996	10,266,957
Restricted by donor for capital acquisition	-0-	1,065,693	1,065,693
Total net position	(28,896,398)	35,907,061	7,010,663
Total liabilities and net position	\$ 3,989,293	\$ 37,630,111	\$ 41,619,404

HENRY COUNTY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 20,166,296	\$ 1,058,090	\$ 21,224,386
Other revenue	-0-	2,600,948	2,600,948
Total operating revenues	20,166,296	3,659,038	23,825,334
Operating expenses			
Salaries and benefits	10,968,343	303,932	11,272,275
Medical professional fees	-0-	-0-	-0-
Purchased services	4,136,219	349,937	4,486,156
Medical supplies and drugs	8,394,181	-0-	8,394,181
Other supplies	-0-	9,940	9,940
Depreciation and amortization	15,174	597,954	613,128
Utilities	118,356	265,496	383,852
Rent	460,705	-0-	460,705
Other	608,744	1,356,394	1,965,138
Total operating expenses	24,701,722	2,883,653	27,585,375
Gain (loss) from operations	(4,535,426)	775,385	(3,760,041)
Non-operating revenues (expenses)			
Investment income	84	353,492	353,576
Interest expense	(46,872)	(32,943)	(79,815)
Other nonoperating	119,232	52,888	172,120
Total nonoperating revenues (expenses)	72,444	373,437	445,881
Change in net position	(4,462,982)	1,148,822	(3,314,160)
Net position - beginning of year	(24,433,416)	34,758,239	10,324,823
Net position - end of year	\$ (28,896,398)	\$ 35,907,061	\$ 7,010,663
Cash flows from activities			
Operating	\$ (279,286)	\$ 790,174	\$ 510,888
Noncapital financing	-0-	52,888	52,888
Capital and related financing	(27,902)	(177,967)	(205,869)
Investing	91,982	(1,465,412)	(1,373,430)
Net change in cash and cash equivalents	(215,206)	(800,317)	(1,015,523)
Cash - beginning of year	494,840	1,140,543	1,635,383
Cash - end of year	\$ 279,634	\$ 340,226	\$ 619,860

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2015

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 38,084,181	\$ 219,018	\$ 541,721	\$ -0-	\$ 38,844,920
Patient accounts receivable, net	23,723,961	-0-	2,296,434	-0-	26,020,395
Supplies and other current assets	12,344,254	113,530	819,994	-0-	13,277,778
Due from related parties	36,549,935	-0-	28,513	(36,352,203)	226,245
Current portion of assets whose use is limited	1,060,923	-0-	-0-	-0-	1,060,923
Total current assets	<u>111,763,254</u>	<u>332,548</u>	<u>3,686,662</u>	<u>(36,352,203)</u>	<u>79,430,261</u>
Investments	-0-	25,235,241	-0-	-0-	25,235,241
Assets whose use is limited					
Internally designated	16,884,682	-0-	-0-	-0-	16,884,682
By donor - expendable - for capital acquisition	-0-	1,056,822	-0-	-0-	1,056,822
	<u>16,884,682</u>	<u>1,056,822</u>	<u>-0-</u>	<u>-0-</u>	<u>17,941,504</u>
Less current portion	1,060,923	-0-	-0-	-0-	1,060,923
Total assets whose use is limited	15,823,759	1,056,822	-0-	-0-	16,880,581
Capital assets, net	25,268,335	11,141,231	83,453	-0-	36,493,019
Other assets	5,327,570	-0-	38,837	(2,063,989)	3,302,418
Total assets	<u>158,182,918</u>	<u>37,765,842</u>	<u>3,808,952</u>	<u>(38,416,192)</u>	<u>161,341,520</u>
Deferred outflows	-0-	-0-	-0-	-0-	-0-
Total assets and deferred outflows	<u>\$ 158,182,918</u>	<u>\$ 37,765,842</u>	<u>\$ 3,808,952</u>	<u>\$ (38,416,192)</u>	<u>\$ 161,341,520</u>

See Report of Independent Auditors on Page 1 through 3.

HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2015

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,060,923	\$ 73,036	\$ -0-	\$ -0-	\$ 1,133,959
Accounts payable and accrued expenses	32,089,105	168,817	665,764	(576,835)	32,346,851
Accrued wages and related liabilities	4,217,416	-0-	-0-	-0-	4,217,416
Estimated third-party settlements	1,706,352	-0-	-0-	-0-	1,706,352
Due to related parties	-0-	269,829	37,569,528	(37,839,357)	-0-
Total current liabilities	39,073,796	511,682	38,235,292	(38,416,192)	39,404,578
Other long-term liabilities	584,613	-0-	-0-	-0-	584,613
Long-term debt, net of current portion	15,744,036	1,294,964	-0-	-0-	17,039,000
Total liabilities	55,402,445	1,806,646	38,235,292	(38,416,192)	57,028,191
Net position					
Unrestricted	94,317,097	25,129,143	(34,509,793)	-0-	84,936,447
Net investment in capital assets	8,463,376	9,773,231	83,453	-0-	18,320,060
Restricted					
By donor - expendable - for capital acquisition	-0-	1,056,822	-0-	-0-	1,056,822
Total net position	102,780,473	35,959,196	(34,426,340)	-0-	104,313,329
Total liabilities and net position	\$ 158,182,918	\$ 37,765,842	\$ 3,808,952	\$ (38,416,192)	\$ 161,341,520

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2015

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 244,885,397	\$ 1,108,750	\$ 20,720,307	\$ (2,236,810)	\$ 264,477,644
Other revenue	6,022,641	2,692,781	-0-	(2,014,491)	6,700,931
Total revenue	<u>250,908,038</u>	<u>3,801,531</u>	<u>20,720,307</u>	<u>(4,251,301)</u>	<u>271,178,575</u>
Operating expenses					
Salaries and benefits	42,874,840	320,261	12,331,788	(766,774)	54,760,115
Medical professional fees	1,524,840	-0-	-0-	-0-	1,524,840
Purchased services	111,663,210	253,178	4,214,916	(90,000)	116,041,304
Medical supplies and drugs	12,606,424	-0-	8,447,162	(462,828)	20,590,758
Other supplies	14,398,551	14,254	-0-	-0-	14,412,805
Depreciation and amortization	4,621,115	656,676	14,321	-0-	5,292,112
Utilities	4,384,879	234,660	115,171	-0-	4,734,710
Rent	15,891,814	-0-	528,421	(1,822,949)	14,597,286
Hospital assessment fee	1,997,366	-0-	-0-	-0-	1,997,366
Other	24,355,094	1,638,696	690,589	(1,108,750)	25,575,629
Total expenses	<u>234,318,133</u>	<u>3,117,725</u>	<u>26,342,368</u>	<u>(4,251,301)</u>	<u>259,526,925</u>
Operating income (loss)	16,589,905	683,806	(5,622,061)	-0-	11,651,650
Nonoperating revenues (expenses)					
Investment income	(227,327)	(665,733)	200	(46,872)	(939,732)
Interest expense	(788,033)	(22,186)	(46,872)	46,872	(810,219)
Other nonoperating	300,335	56,248	138,791	-0-	495,374
Total nonoperating revenues (expenses)	<u>(715,025)</u>	<u>(631,671)</u>	<u>92,119</u>	<u>-0-</u>	<u>(1,254,577)</u>
Change in net position (deficit)	15,874,880	52,135	(5,529,942)	-0-	10,397,073
Net position beginning of year	86,905,593	35,907,061	(28,896,398)	-0-	93,916,256
Net position end of year	<u>\$ 102,780,473</u>	<u>\$ 35,959,196</u>	<u>\$ (34,426,340)</u>	<u>\$ -0-</u>	<u>\$ 104,313,329</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2015

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 243,511,716	\$ 1,108,750	\$ 21,084,226	\$ (2,236,810)	\$ 263,467,882
Cash paid to employees for wages and benefits	(42,962,960)	(320,261)	(12,331,788)	766,774	(54,848,235)
Cash paid to vendors for goods and services	(185,164,592)	(1,933,954)	(8,553,657)	2,927,816	(192,724,387)
Other operating receipts, net	6,022,641	2,692,781	-0-	(2,148,657)	6,566,765
Net cash flows from operating activities	21,406,805	1,547,316	198,781	(690,877)	22,462,025
Cash flows from noncapital financing activities					
Other nonoperating	300,335	56,248	-0-	-0-	356,583
Net cash flows from noncapital financing activities	300,335	56,248	-0-	-0-	356,583
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(9,699,780)	(101,525)	(28,813)	-0-	(9,830,118)
Gain on disposal of property and equipment	5,044	-0-	-0-	-0-	5,044
Proceeds from sale of equipment	1,215	-0-	-0-	-0-	1,215
Interest on long-term debt	(788,033)	(22,186)	(46,872)	(46,872)	(903,963)
Proceeds from 2015 bonds issuance	16,632,000	1,368,000	-0-	-0-	18,000,000
Principal payments on long-term debt, net	(17,498,023)	(1,407,757)	-0-	-0-	(18,905,780)
Net cash flows from capital and related financing activities	(11,347,577)	(163,468)	(75,685)	(46,872)	(11,633,602)
Cash flows from investing activities					
Investment income and other non-operating	(227,327)	(665,733)	138,991	46,872	(707,197)
Change in other assets, net	52,443	70,000	-0-	690,877	813,320
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(7,240,274)	(2,517,016)	-0-	-0-	(9,757,290)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	8,428,530	1,542,574	-0-	-0-	9,971,104
Change in assets whose use is limited - restricted by donor, net	-0-	8,871	-0-	-0-	8,871
Net cash flows from investing activities	1,013,372	(1,561,304)	138,991	737,749	328,808
Net change in cash and cash equivalents	11,372,935	(121,208)	262,087	-0-	11,513,814
Cash and cash equivalents					
Beginning of year	26,904,319	340,226	279,634	-0-	27,524,179
End of year	\$ 38,277,254	\$ 219,018	\$ 541,721	\$ -0-	\$ 39,037,993

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2015

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 16,589,905	\$ 683,806	\$ (5,622,061)	\$ -0-	\$ 11,651,650
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,621,115	656,676	14,321	-0-	5,292,112
Bad debts	4,760,447	-0-	687,562	-0-	5,448,009
Changes in assets and liabilities:					
Patient accounts receivable	(4,726,613)	-0-	(323,643)	-0-	(5,050,256)
Supplies and other current assets	3,930,731	83,481	102,891	(162,883)	3,954,220
Accounts payable and accrued expenses	869,872	(43,945)	211,132	(393,828)	643,231
Accrued salaries and related liabilities	(88,120)	-0-	-0-	-0-	(88,120)
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(5,257,306)	167,298	5,128,579	(134,166)	(95,595)
Estimated third-party settlements	589,851	-0-	-0-	-0-	589,851
Net cash flows from operating activities	<u>\$ 21,406,805</u>	<u>\$ 1,547,316</u>	<u>\$ 198,781</u>	<u>\$ (690,877)</u>	<u>\$ 22,462,025</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 38,084,181	\$ 219,018	\$ 541,721	\$ -0-	\$ 38,844,920
In assets whose use is limited - internally designated	193,073	-0-	-0-	-0-	193,073
Total cash and cash equivalents	<u>\$ 38,277,254</u>	<u>\$ 219,018</u>	<u>\$ 541,721</u>	<u>\$ -0-</u>	<u>\$ 39,037,993</u>
Supplemental cash flows information					
Property included in accounts payable	\$ 120,590	\$ -0-	\$ -0-	\$ -0-	\$ 120,590

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2015 AND 2014

	Hospital 2015	New Castle Family Internal Medicine 2015	New Castle Pediatrics 2015	Total 2015	Total 2014	Change
Operating revenue						
Net patient service revenue	\$ 240,337,503	\$ 2,731,376	\$ 1,816,518	\$ 244,885,397	\$ 188,418,364	\$ 56,467,033
Other revenue	5,545,833	417,823	58,985	6,022,641	6,172,188	(149,547)
Total revenue	<u>245,883,336</u>	<u>3,149,199</u>	<u>1,875,503</u>	<u>250,908,038</u>	<u>194,590,552</u>	<u>56,317,486</u>
Operating expenses						
Salaries and benefits	35,214,155	5,464,764	2,195,921	42,874,840	39,879,656	2,995,184
Medical professional fees	1,451,106	73,734	-0-	1,524,840	1,241,981	282,859
Purchased services	111,054,493	24,271	584,446	111,663,210	72,515,944	39,147,266
Medical supplies and drugs	11,887,853	442,094	276,477	12,606,424	10,799,676	1,806,748
Other supplies	14,324,033	73,656	862	14,398,551	8,834,428	5,564,123
Depreciation and amortization	4,552,186	57,737	11,192	4,621,115	4,393,178	227,937
Utilities	4,352,237	20,320	12,322	4,384,879	3,799,927	584,952
Rent	15,154,195	663,687	73,932	15,891,814	13,775,308	2,116,506
Hospital assessment fee	1,997,366	-0-	-0-	1,997,366	2,395,570	(398,204)
Other	24,188,004	109,961	57,129	24,355,094	22,028,881	2,326,213
Total expenses	<u>224,175,628</u>	<u>6,930,224</u>	<u>3,212,281</u>	<u>234,318,133</u>	<u>179,664,549</u>	<u>54,653,584</u>
Operating income	21,707,708	(3,781,025)	(1,336,778)	16,589,905	14,926,003	1,663,902
Nonoperating revenues (expenses)						
Investment income	(227,369)	-0-	42	(227,327)	489,759	(717,086)
Interest expense	(788,033)	-0-	-0-	(788,033)	(920,450)	132,417
Other nonoperating	206,505	51,330	42,500	300,335	270,080	30,255
Total nonoperating revenues (expenses)	<u>(808,897)</u>	<u>51,330</u>	<u>42,542</u>	<u>(715,025)</u>	<u>(160,611)</u>	<u>(554,414)</u>
Change in net position	<u>\$ 20,898,811</u>	<u>\$ (3,729,695)</u>	<u>\$ (1,294,236)</u>	<u>\$ 15,874,880</u>	<u>\$ 14,765,392</u>	<u>\$ 1,109,488</u>

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2014 AND 2013

	New Castle			Total 2014	Total 2013	Change
	Hospital 2014	Family Internal Medicine 2014	New Castle Pediatrics 2014			
Operating revenue						
Net patient service revenue	\$ 184,237,074	\$ 2,559,092	\$ 1,622,198	\$ 188,418,364	\$ 121,678,488	\$ 66,739,876
Other revenue	5,481,670	535,952	154,566	6,172,188	3,983,567	2,188,621
Total revenue	189,718,744	3,095,044	1,776,764	194,590,552	125,662,055	68,928,497
Operating expenses						
Salaries and benefits	33,021,158	4,841,547	2,016,951	39,879,656	38,681,045	1,198,611
Medical professional fees	1,208,988	32,993	-0-	1,241,981	1,146,187	95,794
Purchased services	72,352,679	26,648	136,617	72,515,944	31,116,516	41,399,428
Medical supplies and drugs	10,332,748	208,692	258,236	10,799,676	9,446,852	1,352,824
Other supplies	8,822,293	10,351	1,784	8,834,428	4,046,427	4,788,001
Depreciation and amortization	4,332,986	60,026	166	4,393,178	4,548,698	(155,520)
Utilities	3,770,918	15,065	13,944	3,799,927	2,342,694	1,457,233
Rent	13,088,832	612,544	73,932	13,775,308	7,706,378	6,068,930
Hospital assessment fee	2,395,570	-0-	-0-	2,395,570	3,947,920	(1,552,350)
Other	21,882,069	96,492	50,320	22,028,881	11,277,551	10,751,330
Total expenses	171,208,241	5,904,358	2,551,950	179,664,549	114,260,268	65,404,281
Operating income (loss)	18,510,503	(2,809,314)	(775,186)	14,926,003	11,401,787	3,524,216
Nonoperating revenues (expenses)						
Investment income (loss)	489,724	-0-	35	489,759	2,344,211	(1,854,452)
Interest expense	(920,450)	-0-	-0-	(920,450)	(714,465)	(205,985)
Other nonoperating	158,540	60,540	51,000	270,080	261,075	9,005
Total nonoperating revenues (expenses)	(272,186)	60,540	51,035	(160,611)	1,890,821	(2,051,432)
Change in net position	\$ 18,238,317	\$ (2,748,774)	\$ (724,151)	\$ 14,765,392	\$ 13,292,608	\$ 1,472,784

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2014

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 26,595,511	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,215,371
Patient accounts receivable, net	23,757,795	-0-	2,660,353	-0-	26,418,148
Supplies and other current assets	16,274,985	197,011	922,885	(162,883)	17,231,998
Due from related parties	31,292,629	-0-	18,623	(31,180,601)	130,651
Current portion of assets whose use is limited	1,096,889	-0-	-0-	-0-	1,096,889
Total current assets	<u>99,017,809</u>	<u>537,237</u>	<u>3,881,495</u>	<u>(31,343,484)</u>	<u>72,093,057</u>
Investments	-0-	24,278,051	-0-	-0-	24,278,051
Assets whose use is limited					
Internally designated	18,314,787	-0-	-0-	-0-	18,314,787
By donor - expendable - for capital acquisition	-0-	1,065,693	-0-	-0-	1,065,693
	<u>18,314,787</u>	<u>1,065,693</u>	<u>-0-</u>	<u>-0-</u>	<u>19,380,480</u>
Less current portion	1,096,889	-0-	-0-	-0-	1,096,889
Total assets whose use is limited	<u>17,217,898</u>	<u>1,065,693</u>	<u>-0-</u>	<u>-0-</u>	<u>18,283,591</u>
Capital assets, net	20,177,737	11,605,753	68,961	-0-	31,852,451
Other assets	5,019,569	143,377	38,837	(1,373,112)	3,828,671
Total assets	<u>141,433,013</u>	<u>37,630,111</u>	<u>3,989,293</u>	<u>(32,716,596)</u>	<u>150,335,821</u>
Deferred outflows	131,932	-0-	-0-	-0-	131,932
Total assets and deferred outflows	<u>\$ 141,564,945</u>	<u>\$ 37,630,111</u>	<u>\$ 3,989,293</u>	<u>\$ (32,716,596)</u>	<u>\$ 150,467,753</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2014

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,096,889	\$ 58,902	\$ -0-	\$ -0-	\$ 1,155,791
Accounts payable and accrued expenses	31,098,643	212,762	454,633	(183,007)	31,583,031
Accrued wages and related liabilities	4,305,536	-0-	-0-	-0-	4,305,536
Estimated third-party settlements	1,116,501	-0-	-0-	-0-	1,116,501
Due to related parties	-0-	102,531	32,431,058	(32,533,589)	-0-
Total current liabilities	<u>37,617,569</u>	<u>374,195</u>	<u>32,885,691</u>	<u>(32,716,596)</u>	<u>38,160,859</u>
Other long-term liabilities	467,690	-0-	-0-	-0-	467,690
Long-term debt, net of current portion	16,574,093	1,348,855	-0-	-0-	17,922,948
Total liabilities	<u>54,659,352</u>	<u>1,723,050</u>	<u>32,885,691</u>	<u>(32,716,596)</u>	<u>56,551,497</u>
Net position					
Unrestricted	84,398,838	24,643,372	(28,965,359)	-0-	80,076,851
Net investment in capital assets	2,506,755	10,197,996	68,961	-0-	12,773,712
Restricted					
By donor - expendable - for capital acquisition	-0-	1,065,693	-0-	-0-	1,065,693
Total net position	<u>86,905,593</u>	<u>35,907,061</u>	<u>(28,896,398)</u>	<u>-0-</u>	<u>93,916,256</u>
Total liabilities and net position	<u>\$ 141,564,945</u>	<u>\$ 37,630,111</u>	<u>\$ 3,989,293</u>	<u>\$ (32,716,596)</u>	<u>\$ 150,467,753</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 188,418,364	\$ 1,058,090	\$ 20,166,296	\$ (1,961,489)	\$ 207,681,261
Other revenue	6,172,188	2,600,948	-0-	(2,017,981)	6,755,155
Total revenue	<u>194,590,552</u>	<u>3,659,038</u>	<u>20,166,296</u>	<u>(3,979,470)</u>	<u>214,436,416</u>
Operating expenses					
Salaries and benefits	39,879,656	303,932	10,968,343	(591,557)	50,560,374
Medical professional fees	1,241,981	-0-	-0-	-0-	1,241,981
Purchased services	72,515,944	349,937	4,136,219	(90,000)	76,912,100
Medical supplies and drugs	10,799,676	-0-	8,394,181	(449,801)	18,744,056
Other supplies	8,834,428	9,940	-0-	-0-	8,844,368
Depreciation and amortization	4,393,178	597,954	15,174	-0-	5,006,306
Utilities	3,799,927	265,496	118,356	-0-	4,183,779
Rent	13,775,308	-0-	460,705	(1,790,022)	12,445,991
Hospital assessment fee	2,395,570	-0-	-0-	-0-	2,395,570
Other	22,028,881	1,356,394	608,744	(1,058,090)	22,935,929
Total expenses	<u>179,664,549</u>	<u>2,883,653</u>	<u>24,701,722</u>	<u>(3,979,470)</u>	<u>203,270,454</u>
Operating income (loss)	14,926,003	775,385	(4,535,426)	-0-	11,165,962
Nonoperating revenues (expenses)					
Investment income	489,759	353,492	84	(46,872)	796,463
Interest expense	(920,450)	(32,943)	(46,872)	46,872	(953,393)
Other nonoperating	270,080	52,888	119,232	-0-	442,200
Total nonoperating revenues (expenses)	<u>(160,611)</u>	<u>373,437</u>	<u>72,444</u>	<u>-0-</u>	<u>285,270</u>
Change in net position	14,765,392	1,148,822	(4,462,982)	-0-	11,451,232
Net position beginning of year	72,140,201	34,758,239	(24,433,416)	-0-	82,465,024
Net position end of year	<u>\$ 86,905,593</u>	<u>\$ 35,907,061</u>	<u>\$ (28,896,398)</u>	<u>\$ -0-</u>	<u>\$ 93,916,256</u>

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HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 180,293,879	\$ 1,058,090	\$ 20,154,118	\$ (1,961,489)	\$ 199,544,598
Cash paid to employees for wages and benefits	(39,516,442)	(303,932)	(10,968,343)	591,557	(50,197,160)
Cash paid to vendors for goods and services	(130,710,760)	(2,564,932)	(9,465,061)	3,535,743	(139,205,010)
Other operating receipts, net	6,172,188	2,600,948	-0-	(2,107,510)	6,665,626
Net cash flows from operating activities	16,238,865	790,174	(279,286)	58,301	16,808,054
Cash flows from noncapital financing activities					
Other nonoperating	270,080	52,888	-0-	-0-	322,968
Net cash flows from noncapital financing activities	270,080	52,888	-0-	-0-	322,968
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(3,896,732)	(89,178)	(3,088)	-0-	(3,988,998)
Loss on disposal of property and equipment	(3,000)	-0-	-0-	-0-	(3,000)
Proceeds from sale of equipment	3,000	-0-	22,058	-0-	25,058
Interest on long-term debt	(920,450)	(32,943)	(46,872)	(46,872)	(1,047,137)
Principal payments on long-term debt, net	(1,171,550)	(55,846)	-0-	-0-	(1,227,396)
Net cash flows from capital and related financing activities	(5,988,732)	(177,967)	(27,902)	(46,872)	(6,241,473)
Cash flows from investing activities					
Investment income and other non-operating	489,759	353,492	119,316	46,872	1,009,439
Change in other assets, net	2,785,924	74,896	(27,334)	(58,301)	2,775,185
Purchases of investments in assets whose use is limited - internally designated, held by Trustee, and investments	(13,051,962)	2,542,153	-0-	-0-	(10,509,809)
Proceeds from sale of investments in assets whose use is limited - internally designated, held by Trustee, and investments	12,639,030	(4,425,263)	-0-	-0-	8,213,767
Change in assets whose use is limited - restricted by donor, net	-0-	(10,690)	-0-	-0-	(10,690)
Net cash flows from investing activities	2,862,751	(1,465,412)	91,982	(11,429)	1,477,892
Net change in cash and cash equivalents	13,382,964	(800,317)	(215,206)	-0-	12,367,441
Cash and cash equivalents					
Beginning of year	13,521,355	1,140,543	494,840	-0-	15,156,738
End of year	\$ 26,904,319	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,524,179

See Report of Independent Auditors on Pages 1 through 3.

HENRY COUNTY HOSPITAL

CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 14,926,003	\$ 775,385	\$ (4,535,426)	\$ -0-	\$ 11,165,962
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,393,178	597,954	15,174	-0-	5,006,306
Bad debts	7,552,825	-0-	761,018	-0-	8,313,843
Changes in assets and liabilities:					
Patient accounts receivable	(13,354,879)	-0-	(773,196)	-0-	(14,128,075)
Supplies and other current assets	(10,949,623)	(33,695)	(69,786)	88,579	(10,964,525)
Accounts payable and accrued expenses	17,146,747	48,562	(781,535)	59,251	16,473,025
Accrued salaries and related liabilities	363,214	-0-	-0-	-0-	363,214
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(4,028,662)	(598,032)	5,104,465	(89,529)	388,242
Estimated third-party settlements	73,139	-0-	-0-	-0-	73,139
Net cash flows from operating activities	\$ 16,238,865	\$ 790,174	\$ (279,286)	\$ 58,301	\$ 16,808,054
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 26,595,511	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,215,371
In assets whose use is limited - internally designated	308,808	-0-	-0-	-0-	308,808
Total cash and cash equivalents	\$ 26,904,319	\$ 340,226	\$ 279,634	\$ -0-	\$ 27,524,179

See Report of Independent Auditors on Pages 1 through 3.