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May 24, 2019

Board of Trustees
Highpoint Health
600 Wilson Creek Road
Lawrenceburg, IN 47025

We have reviewed the audit report of Highpoint Health which was opined upon by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Report of Independent Auditors* the financial statements included in the report present fairly the financial condition of Highpoint Health as of December 31, 2017, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Blue & Co., LLC prepared all required independent auditor's reports in accordance guidelines established by the State Board of Accounts.

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

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

Paul D. Joyce, CPA
State Examiner



FINANCIAL STATEMENTS

WITH

REQUIRED SUPPLEMENTARY INFORMATION

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

HIGHPOINT HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Highpoint Health
Lawrenceburg, Indiana

We have audited the accompanying financial statements of Highpoint Health, formerly known as Dearborn County Hospital, (the Hospital), a component unit of Dearborn County, and its discretely presented component unit, Highpoint Health Foundation, Inc., formerly known as Dearborn County Hospital Foundation, Inc., (the Foundation), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the 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 Hospital'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 financial statements.

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

Board of Trustees
Highpoint Health
Lawrenceburg, Indiana

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the year 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 on pages MDA-i through MDA-vi, and the schedules of the pension plan information on pages 31 and 32 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 33 and 34 is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 24, 2019

REQUIRED SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

This section of Highpoint Health's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance. This MD&A does include a discussion and analysis of the activities and results of the Hospital's blended component units, Health Services Corporation of Southeastern Indiana (HSC) and Rising Sun Medical Center (RSMC), and results of the discrete component unit, Highpoint Health Foundation, Inc. (the Foundation). Please read it in conjunction with the Hospital's financial statements that follow this MD&A.

Financial Highlights

- The Hospital's total assets and deferred outflows increased approximately \$6,512,000 or 3.9% during 2017. Total liabilities and deferred inflows increased \$7,790,000 or 15.0% during 2017.
- The Hospital's net position decreased approximately \$1,278,000 or 1.1% in 2017.
- The Hospital reported an operating loss of approximately \$7,728,000 for 2017, representing a decrease of \$1,512,000 in comparison to the 2016 results.
- The Hospital added capital assets of approximately \$3,403,000 during 2017 while capital assets with a net book value of \$11,000 were disposed. Net additions and disposals combined with depreciation expense of \$6,202,000 resulted in net capital assets decreasing \$2,810,000 from 2016.
- The Hospital's assets whose use is limited, both current and non-current portions, increased approximately \$6,860,000 from 2016 as a result of favorable investment returns.
- The Hospital has agreements to lease the operations of multiple long-term care facilities. The Hospital recognized approximately \$33,355,000 and \$33,531,000 of gross patient service revenue related to long-term care during 2017 and 2016, respectively.

Using This Annual Report

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

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

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

Finally, the purpose of the statement of cash flows is to provide information about the Hospital's cash flows from operating activities, noncapital financing activities, capital and related financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and cash equivalents and the change in cash and cash equivalents balances during the year.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

The Balance Sheet and Statement of Revenues, Expenses 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 revenues, expenses 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 it. The Hospital's net position is the difference between assets and deferred outflows and liabilities and deferred inflows. It is 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 its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Table 1 – Balance Sheets

Total assets and deferred outflows increased approximately \$6,512,000 during 2017. The significant change in the Hospital's assets was in assets whose use is limited which increased \$6,759,000 in 2017 compared to 2016 mainly due to favorable investment returns as well as the recognition of a pension asset of \$3,764,000 as of December 31, 2017. As of December 31, 2017, the Hospital's deferred outflows decreased \$397,000 as a result of the defined benefit pension plan.

Total liabilities and deferred inflows increased approximately \$7,790,000 during 2017 mainly related to an increase in current liabilities and deferred inflows from 2016 to 2017 by \$9,028,000.

Net position decreased by approximately \$1,278,000 from 2016 to 2017 based on an operating loss offset by investment income.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017

	2017	2016	Change
Assets			
Current assets	\$ 66,793,990	\$ 67,526,369	\$ (732,379)
Assets whose use is limited	59,939,122	53,179,988	6,759,134
Capital assets, net	42,497,174	45,306,809	(2,809,635)
Pension asset	3,764,113	-0-	3,764,113
Other assets	214,144	286,215	(72,071)
Total assets	173,208,543	166,299,381	6,909,162
Deferred outflows			
Total assets and deferred outflows	2,399,486	2,796,686	(397,200)
	<u>\$ 175,608,029</u>	<u>\$ 169,096,067</u>	<u>\$ 6,511,962</u>
Liabilities			
Current liabilities	\$ 28,647,384	\$ 23,317,766	\$ 5,329,618
Pension liability	-0-	424,057	(424,057)
Long-term debt, net	27,134,672	27,948,810	(814,138)
Total liabilities	55,782,056	51,690,633	4,091,423
Deferred inflows			
Total liabilities and deferred inflows	4,082,189	383,317	3,698,872
	59,864,245	52,073,950	7,790,295
Net position			
Net investment in capital assets	14,548,364	16,650,639	(2,102,275)
Restricted	58,533	68,693	(10,160)
Unrestricted	101,136,887	100,302,785	834,102
Total net position	115,743,784	117,022,117	(1,278,333)
Total liabilities, deferred inflows and net position	<u>\$ 175,608,029</u>	<u>\$ 169,096,067</u>	<u>\$ 6,511,962</u>

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

The Hospital's performance in 2017 was unfavorable with a negative return on equity of 1.1% compared to a negative return in the prior year of 4.0%.

Total operating revenue decreased approximately \$1,257,000 as net patient service decreased \$1,043,000 in 2017 over 2016. Acute care services constituted the majority of the decrease in 2017.

Expenses increased by approximately \$255,000 between 2017 and 2016. While supplies decreased \$1,147,000, other operating expenses increased by \$1,076,000 primarily due to the Hospital Assessment Fee and Healthy Indiana Plan programs.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017

Nonoperating revenues (expenses) increased by approximately \$4,921,000 due to an increase in investment income between years. Contributions were \$23,000 in 2017 compared to approximately \$30,000 in 2016 related to the Foundation's activity.

	2017	2016	Change
Operating revenues			
Net patient service revenue	\$ 162,770,335	\$ 163,813,036	\$ (1,042,701)
Other operating revenue	3,173,696	3,388,066	(214,370)
Total operating revenues	165,944,031	167,201,102	(1,257,071)
Operating expenses			
Salaries, wages and benefits	64,862,409	64,733,608	128,801
Professional fees and contract services	42,376,005	42,336,314	39,691
Supplies	19,070,594	20,217,304	(1,146,710)
Depreciation	6,201,840	6,044,285	157,555
Other	41,161,410	40,085,594	1,075,816
Total operating expenses	173,672,258	173,417,105	255,153
Operating loss	(7,728,227)	(6,216,003)	(1,512,224)
Nonoperating revenues (expenses)			
Change in net position	(1,278,333)	(4,687,457)	3,409,124
Net position			
Beginning of year	117,022,117	121,709,574	(4,687,457)
End of year	\$ 115,743,784	\$ 117,022,117	\$ (1,278,333)

Table 3 – Statements of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing 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 balances during the reporting period?"

Total cash and cash equivalents decreased approximately \$4,636,000 in 2017. Operating activities generated cash and cash equivalents of \$2,604,000 during 2017. Noncapital financing activities increased cash and cash equivalents mainly due to contributions received during 2017. Capital and related financing decreased cash and cash equivalents by \$4,796,000 during 2017, mainly as the result of expenditures for property and equipment additions and debt service. Investing activities decreased cash and cash equivalents by \$2,467,000 in 2017 as a result of investment activity.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2017

The following is a summary of cash flows:

Cash flows data	2017	2016	Change
From operating activities	\$ 2,603,821	\$ (9,976,478)	\$ 12,580,299
From noncapital financing activities	22,817	30,315	(7,498)
From capital and related financing activities	(4,795,821)	(5,500,845)	705,024
From investing activities	(2,466,868)	(700,404)	(1,766,464)
Change in cash and cash equivalents	<u>\$ (4,636,051)</u>	<u>\$ (16,147,412)</u>	<u>\$ 11,511,361</u>

Capital Assets and Debt Administration

Capital Assets

The change in capital assets is outlined in the following table:

	2017	2016	Change
Land	\$ 1,408,112	\$ 1,408,112	\$ -0-
Land improvements	2,615,940	2,590,591	25,349
Buildings and improvements	74,376,772	74,180,789	195,983
Equipment	56,776,738	54,549,376	2,227,362
Construction in process	1,866,461	925,034	941,427
	<u>137,044,023</u>	<u>133,653,902</u>	<u>3,390,121</u>
Less accumulated depreciation	<u>94,546,849</u>	<u>88,347,093</u>	<u>6,199,756</u>
Capital assets, net	<u>\$ 42,497,174</u>	<u>\$ 45,306,809</u>	<u>\$ (2,809,635)</u>

During 2017, the Hospital invested approximately \$3,403,000 in capital assets while disposing of \$13,000 of capital assets. Please refer to the notes to the financial statements for more detailed information on capital assets.

Debt Administration

The Hospital refinanced debt in 2017. No additional amounts were borrowed. As a result, after principal payments, debt decreased approximately \$713,000 in 2017 compared to 2016. More detailed information about the Hospital's debt is presented in the notes to the financial statements.

HIGHPOINT HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2017

Economic Outlook

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure because of changes in payor mix and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. Another factor that poses a challenge to management is the increasing competitive market for the delivery of health care services. The ongoing challenge facing the Hospital is to continue to provide quality patient care in this competitive environment, and to attain reasonable rates for the services that are provided while managing costs. The most significant cost factor affecting the Hospital is the increases in labor costs due to the increasing competition for quality health care workers. Uncompensated care is also a significant factor on the Hospital's margin.

Contacting Hospital Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's financial condition. If you have any questions about this report, you may contact the Hospital's Administrative offices at 600 Wilson Creek Road, Lawrenceburg, Indiana 47025.

HIGHPOINT HEALTH

BALANCE SHEET DECEMBER 31, 2017

ASSETS AND DEFERRED OUTFLOWS

	Total Hospital	Foundation	Total Reporting Entity
Current assets			
Cash and cash equivalents	\$ 27,577,832	\$ 113,092	\$ 27,690,924
Patient accounts receivable, less allowance for uncollectible accounts of \$6,618,311	22,381,108	-0-	22,381,108
Inventory	1,804,591	-0-	1,804,591
Investments	-0-	672,457	672,457
Current portion of assets whose use is limited	814,138	-0-	814,138
Other current assets	13,430,772	-0-	13,430,772
Total current assets	66,008,441	785,549	66,793,990
Assets whose use is limited			
Internally designated, net of current portion	59,880,589	-0-	59,880,589
Restricted by donors	-0-	58,533	58,533
Total assets whose use is limited	59,880,589	58,533	59,939,122
Capital assets			
Land	1,408,112	-0-	1,408,112
Depreciable capital assets	133,769,450	-0-	133,769,450
Construction in progress	1,866,461	-0-	1,866,461
	137,044,023	-0-	137,044,023
Less accumulated depreciation	94,546,849	-0-	94,546,849
Capital assets, net	42,497,174	-0-	42,497,174
Pension asset	3,764,113	-0-	3,764,113
Other assets	214,144	-0-	214,144
Total assets	172,364,461	844,082	173,208,543
Deferred outflows	2,399,486	-0-	2,399,486
Total assets and deferred outflows	\$ 174,763,947	\$ 844,082	\$ 175,608,029

See accompanying notes to financial statements.

HIGHPOINT HEALTH

BALANCE SHEET DECEMBER 31, 2017

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Total Hospital	Foundation	Total Reporting Entity
Current liabilities			
Current portion of long-term debt	\$ 814,138	\$ -0-	\$ 814,138
Accounts payable	20,508,604	-0-	20,508,604
Accrued salaries, wages, and related liabilities	6,139,806	-0-	6,139,806
Estimated third-party payor settlements	1,184,836	-0-	1,184,836
Total current liabilities	28,647,384	-0-	28,647,384
Long-term debt, net of current portion	27,134,672	-0-	27,134,672
Total liabilities	55,782,056	-0-	55,782,056
Deferred inflows	4,082,189	-0-	4,082,189
Total liabilities and deferred inflows	59,864,245	-0-	59,864,245
Net position			
Net investment in capital assets	14,548,364	-0-	14,548,364
Restricted			
Donor restricted - nonexpendable	-0-	37,145	37,145
Donor restricted - expendable	-0-	21,388	21,388
Total restricted	-0-	58,533	58,533
Unrestricted	100,351,338	785,549	101,136,887
Total net position	114,899,702	844,082	115,743,784
Total liabilities, deferred inflows and net position	\$ 174,763,947	\$ 844,082	\$ 175,608,029

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017

	Total Hospital	Foundation	Total Reporting Entity
Operating revenues			
Net patient service revenue	\$ 162,770,335	\$ -0-	\$ 162,770,335
Other operating revenue	3,173,696	-0-	3,173,696
Total operating revenues	165,944,031	-0-	165,944,031
Operating expenses			
Salaries and wages	51,348,571	-0-	51,348,571
Employee benefits	13,513,838	-0-	13,513,838
Professional fees and contract services	42,376,005	-0-	42,376,005
Supplies	19,070,594	-0-	19,070,594
Insurance	1,202,607	-0-	1,202,607
Facility and equipment leases	7,980,782	-0-	7,980,782
Repairs and maintenance	3,013,291	-0-	3,013,291
Utilities	2,043,051	-0-	2,043,051
HAF and HIP programs	4,570,412	-0-	4,570,412
Depreciation	6,201,840	-0-	6,201,840
Other	22,351,267	-0-	22,351,267
Total operating expenses	173,672,258	-0-	173,672,258
Operating loss	(7,728,227)	-0-	(7,728,227)
Nonoperating revenues (expenses)			
Investment income	7,173,050	3,851	7,176,901
Interest expense	(689,517)	-0-	(689,517)
Contributions	-0-	22,817	22,817
Other	(34,760)	(25,547)	(60,307)
Total nonoperating revenues (expenses)	6,448,773	1,121	6,449,894
Change in net position	(1,279,454)	1,121	(1,278,333)
Net position			
Beginning of year	116,179,156	842,961	117,022,117
End of year	\$ 114,899,702	\$ 844,082	\$ 115,743,784

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017

	Total Hospital	Foundation	Total Reporting Entity
Operating activities			
Cash received from patients and third-party payors	\$ 162,853,928	\$ -0-	\$ 162,853,928
Cash paid for employees' salaries, wages and benefits	(69,393,858)	-0-	(69,393,858)
Cash paid to vendors for goods and services	(94,029,945)	-0-	(94,029,945)
Other operating receipts, net	3,173,696	-0-	3,173,696
Net cash from operating activities	2,603,821	-0-	2,603,821
Noncapital financing activities			
Contributions	-0-	22,817	22,817
Capital and related financing activities			
Acquisition and construction of capital assets	(3,403,201)	-0-	(3,403,201)
Proceeds from disposal of capital assets	9,900	-0-	9,900
Proceeds from issuance of long-term debt	25,800,000	-0-	25,800,000
Interest paid on debt	(689,517)	-0-	(689,517)
Principal payments on debt	(26,513,003)	-0-	(26,513,003)
Net cash from capital and related financing activities	(4,795,821)	-0-	(4,795,821)
Investing activities			
Investment income	7,173,050	3,851	7,176,901
Other nonoperating revenues (expenses)	(44,660)	(25,547)	(70,207)
Purchase of investments	(9,570,316)	(3,246)	(9,573,562)
Net cash from investing activities	(2,441,926)	(24,942)	(2,466,868)
Net change in cash and cash equivalents	(4,633,926)	(2,125)	(4,636,051)
Cash and cash equivalents			
Beginning of year	36,183,911	115,217	36,299,128
End of year	<u>\$ 31,549,985</u>	<u>\$ 113,092</u>	<u>\$ 31,663,077</u>
Reconciliation of cash and cash equivalents to the balance sheet			
Cash and cash equivalents			
In current assets	\$ 27,577,832	\$ 113,092	\$ 27,690,924
In assets whose use is limited	3,972,153	-0-	3,972,153
Total cash and cash equivalents	<u>\$ 31,549,985</u>	<u>\$ 113,092</u>	<u>\$ 31,663,077</u>

See accompanying notes to financial statements.

HIGHPOINT HEALTH

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017

	Total Hospital	Foundation	Total Reporting Entity
Reconciliation of operating income			
to net cash from operating activities			
Operating income	\$ (7,728,227)	\$ -0-	\$ (7,728,227)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation	6,201,840	-0-	6,201,840
Provision for bad debts	8,080,298	-0-	8,080,298
Changes in operating assets and liabilities			
Patient accounts receivable	(7,849,546)	-0-	(7,849,546)
Inventory	43,773	-0-	43,773
Other current assets	(7,092,958)	-0-	(7,092,958)
Pension asset	(3,764,113)	-0-	(3,764,113)
Other assets	66,428	-0-	66,428
Deferred outflows	397,200	-0-	397,200
Accounts payable	11,464,749	-0-	11,464,749
Accrued salaries, wages, and related liabilities	(343,279)	-0-	(343,279)
Deferred inflows	3,698,872	-0-	3,698,872
Estimated third-party payor settlements	(147,159)	-0-	(147,159)
Pension liability	(424,057)	-0-	(424,057)
Net cash flows from operating activities	<u>\$ 2,603,821</u>	<u>\$ -0-</u>	<u>\$ 2,603,821</u>

See accompanying notes to financial statements.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Highpoint Health, formerly known as Dearborn County Hospital, (the Hospital) is a county facility and operates under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient, outpatient, physician and long-term health care services. The Board of County Commissioners of Dearborn County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between Dearborn County (the County) and the Hospital. For these reasons, the Hospital is considered a component unit of the County.

The financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the County that is attributable to the transactions of the Hospital and its component units. They do not purport to, and do not, present the financial position of the County as of December 31, 2017 and the changes in its financial position or its cash flows for the year then ended.

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

Blended and Discrete Component Units

The accompanying financial statements include the accounts of the blended component units, Health Services Corporation of Southeastern Indiana (HSC) and Rising Sun Medical Center (RSMC). The Hospital appoints the majority of HSC's and RSMC's boards. In addition, there is a financial benefit/burden relationship between the Hospital and the blended component units. Although HSC and RSMC are legally separate from the Hospital, they are reported as if they were a part of the Hospital because they provide services entirely or almost entirely to the Hospital.

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Highpoint Health Foundation, Inc., formerly known as Dearborn County Hospital Foundation, Inc. (the Foundation) is considered a discrete component unit for reporting purposes.

All significant intercompany transactions have been eliminated in the financial statements.

The Hospital, HSC, RSMC and the Foundation are collectively referred to as "the Hospital" for the remainder of the financial statements notes where appropriate.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

The separate financial statement for each of the entities discussed above may be obtained through contacting management of the Hospital.

Long-Term Care Operations

The Hospital owns the operations of multiple long-term care facilities by way of an arrangement with the managers of those 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.

The Hospital has 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 pays 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 incentive management fees. The agreements expire at various times through October 2020; however, 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.

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.

Use of Estimates

The preparation of the financial statements includes only the financial position, results of operations, changes in net position and cash flows of the Hospital in conformity with accounting principles generally accepted in the United States of America. The financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

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

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market mutual funds and investments in highly liquid debt instruments with an original maturity date of three months or less. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. As a supplement to federally insured limits, the Hospital's practice is to maintain its cash accounts at Indiana Public Deposit Insurance Fund approved financial institutions. 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.

Investments

Investments, which are held by the Foundation, consist of certificates of deposit which are reported at contract value.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program.

These programs have audited the year-end cost report filed with the Medicare program through December 31, 2015 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2016 through 2017 are reflected in estimated third-party settlements on the balance sheet. During 2017, the Hospital recognized a decrease in change in net position in the statement of revenues, expenses and changes in net position of approximately \$50,000 due to differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies. Patient charges under these programs, on which no interim payments have been received, are included in patient accounts receivable at the estimated net realizable value of such charges.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Inventory

Inventory is valued at the lower of cost or net realizable value with cost being determined on the first-in, first-out method. Inventory consists of medical supplies and pharmaceuticals.

Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2018.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value or contract value for certificates of deposit in the financial statements. These assets include investments designated by the Hospital Board for internal purposes and Foundation investments restricted by donors. These investments consist primarily of cash and cash equivalents, certificates of deposit, fixed income and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized, are included in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position.

Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. The capitalization threshold (the dollar values above which asset acquisitions are added to the capital asset accounts) is \$2,500 per item, or a group of items with an aggregate cost of at least \$5,000. Depreciation is calculated on the straight-line method over the estimated useful lives of capital assets which range from 3-40 years. For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest cost was capitalized during 2017.

Net Position

The net position of the Hospital is classified into three components. (1) Net investment in capital assets represents 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. (2) Restricted nonexpendable net position includes the principal portion of permanent endowments. Restricted expendable net position includes assets that must be used for a particular purpose, as specified by creditors, grantors, or contributions external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. (3) Unrestricted net position is the remaining net position that does not meet the definition

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

of net investment in capital assets or restricted. The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses 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 and are reported as nonoperating revenues or expenses. Operating expenses are generally all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

From time to time, the Hospital and Foundation receive 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, if any, restricted to capital acquisitions are reported as nonoperating revenues and expenses.

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 on a sliding scale on the basis of financial need. Because the Hospital does not pursue collection of approved charity care balances, the charges are not reflected in net revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net patient service revenue. Of the Hospital's total expenses reported within the statement of revenues, expenses and changes in net position, an estimated \$873,000 arose from providing services to charity patients for 2017.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's expenses including interest expense to gross patient service revenue.

Pensions

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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Advertising Costs

The Hospital expenses advertising costs as they are incurred. Advertising expense for 2017 was approximately \$171,000.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused vacation is reported as a liability within the accrued salaries, wages, and related liabilities on the balance sheet.

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 (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

HSC, RSMC and the Foundation are tax-exempt organizations under Internal Revenue Code 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and its component units and recognize a tax liability if the Hospital or its component units 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 the Hospital and its component units and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

HSC, RSMC and the Foundation have filed their federal and state income tax returns for periods through December 31, 2017. 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). HSC, RSMC and the Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 and settled claims have not exceeded commercial coverage in any of the three preceding years.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is April 24, 2019.

2. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include:

Internally designated – Amounts transferred by the Hospital's Board of Trustees through funding depreciation expense. Such amounts are to be used for debt service, equipment and building, remodeling, repairing, replacing or making additions to the Hospital's buildings as authorized by IC 16-22-3-13.

Restricted by donors – Foundation amounts restricted by donors which include expendable and nonexpendable amounts based on donor stipulations.

The composition of assets whose use is limited includes the following as of December 31, 2017:

Internally designated	
Cash and cash equivalents	\$ 3,972,153
Mutual funds	56,722,574
Restricted by donors	
Certificates of deposit	<u>58,533</u>
Total assets whose use is limited	60,753,260
Less current portion	<u>814,138</u>
	<u>\$ 59,939,122</u>

The current portion of assets whose use is limited reflects the current scheduled principal payments on long-term debt. See the long-term debt note for further information.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

Investments (investments and assets whose use is limited) are carried at fair market value except for certificates of deposit which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

As of December 31, 2017, 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.

	Investment Maturities (in years)				More than 10
	Carrying Amount	Less than 1	1-5	6-10	
Hospital					
Mutual funds	\$ 56,722,574	\$ 56,722,574	\$ -0-	\$ -0-	\$ -0-
Foundation					
Certificates of deposit	\$ 730,990	\$ 730,990	\$ -0-	\$ -0-	\$ -0-

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

Concentration of credit risk – The Hospital places a limit on the amount it may invest in any one issuer. The Hospital believes that it is not exposed to any significant credit risk on investments. The Hospital does not have a formal policy for credit and concentration risk.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Deposits consist of the following as of December 31, 2017:

Carrying amount	
Deposits	\$ 31,663,077
Investments	57,453,564
	<u>\$ 89,116,641</u>
Included in the balance sheet captions	
Cash and cash equivalents	\$ 27,690,924
Investments	672,457
Assets whose use is limited	
Current	814,138
Non current	59,939,122
	<u>\$ 89,116,641</u>

4. 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. The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2017.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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, 2017.

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

The following tables set forth by level, within the hierarchy, the Hospital's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Assets whose use is limited				
Cash and cash equivalents				
Money market mutual funds	\$ 3,968,439	\$ -0-	\$ 3,968,439	\$ -0-
Mutual funds				
Fixed income	28,229,839	28,229,839	-0-	-0-
Large value	3,844,226	3,844,226	-0-	-0-
Large blend	9,320,326	9,320,326	-0-	-0-
Real estate funds	2,868,959	2,868,959	-0-	-0-
Foreign large blend and growth	6,483,928	6,483,928	-0-	-0-
Other	5,975,296	5,975,296	-0-	-0-
Total mutual funds	<u>56,722,574</u>	<u>56,722,574</u>	<u>-0-</u>	<u>-0-</u>
	60,691,013	<u>\$ 56,722,574</u>	<u>\$ 3,968,439</u>	<u>\$ -0-</u>
Cash	3,714			
Certificates of deposit	<u>58,533</u>			
Total assets whose use is limited	<u>\$ 60,753,260</u>			

As of December 31, 2017, the market value of investments exceeded cost by approximately \$4,100,000. The gains and losses included in earnings for 2017 are attributable to the change in unrealized gains relating to assets held as of December 31, 2017 and are reported in the statement of revenues, expenses and changes in net position as a component of investment income. The unrealized gains approximated \$4,569,000 for 2017. The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

5. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of the following amounts as of December 31, 2017:

Patient accounts receivable	
Receivable from patients and their insurance carriers	\$ 24,604,018
Receivable from Medicare	13,025,657
Receivable from Medicaid	10,613,498
Total patient accounts receivable	48,243,173
Less allowance for contractual agreements	19,243,754
Less allowance for uncollectible amounts	6,618,311
Patient accounts receivable, net	\$ 22,381,108
Accounts payable and accrued expenses	
Payable to suppliers and others	\$ 20,508,604
Payable to employees and related liabilities	6,139,806
Total accounts payable and accrued expenses	\$ 26,648,410

6. CAPITAL ASSETS

Capital asset activity for 2017 is as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Land	\$ 1,408,112	\$ -0-	\$ -0-	\$ -0-	\$ 1,408,112
Land improvements	2,590,591	25,349	-0-	-0-	2,615,940
Buildings and improvements	74,180,789	127,315	-0-	68,668	74,376,772
Equipment	54,549,376	1,634,554	(13,080)	605,888	56,776,738
Construction in process	925,034	1,615,983	-0-	(674,556)	1,866,461
Total capital assets	133,653,902	3,403,201	(13,080)	-0-	137,044,023
Less accumulated depreciation	88,347,093	6,201,840	(2,084)	-0-	94,546,849
Capital assets, net	\$ 45,306,809	\$ (2,798,639)	\$ (10,996)	\$ -0-	\$ 42,497,174

There were no significant outstanding commitments on capital assets as of December 31, 2017.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

7. LONG-TERM DEBT

Indiana Finance Authority Hospital Revenue Bonds, Series 2006 original issue for \$30,000,000 were issued for various building additions, improvements and renovations. The Series 2006 Bonds had a variable interest rate and were set to mature April 1, 2036. The Series 2006 Bonds were remarketed weekly with the variable interest rate set by the remarketing agent. The Series 2006 Bonds were secured ultimately by the gross revenues of the Hospital.

In September 2017, the Series 2006 Bonds were retired by the issuance of \$25,800,000 Dearborn County, Indiana, Economic Development Revenue Refunding Bonds, Series 2017 (Series 2017 Bonds). On this date, the Hospital, Dearborn County and Fifth Third Bank (Fifth Third) entered into a Bond Purchase Agreement (the Agreement) whereby Fifth Third purchased from Dearborn County all of the Series 2017 Bonds in a private placement. The Series 2017 Bonds have a final maturity date of April 2036. However, the Agreement provides that Fifth Third will hold the Series 2017 Bonds through September 26, 2020. At that time, the Hospital would be subject to payment of the remaining principal balance of approximately \$23,600,000 if a new Agreement is not executed with Fifth Third or another qualifying institution. The Series 2017 Bonds bear interest at a fixed rate of 2.99% through September 2020 and are secured ultimately by the gross revenues of the Hospital.

During 2016, the Hospital acquired a medical office building by assuming the outstanding debt (the Note) of the previous owner of the building. The Note balance at the effective date of the agreement was approximately \$2,318,000. The Note bears interest at 1.0%, is due in monthly installments of principal and interest of approximately \$11,000 with a final maturity of April 2035. The Note is secured by capital assets with a net book value of approximately \$3,500,000 as of December 31, 2017.

A progression of the Hospital's debt follows:

	Balance December 31,			Balance December 31,		
	2016	Additions	Payments	2017	Current portion	
Series 2006 Bonds	\$ 26,400,000	\$ -0-	\$ (26,400,000)	\$ -0-	\$ -0-	
Series 2017 Bonds	-0-	25,800,000	-0-	25,800,000	700,000	
Note payable	2,261,813	-0-	(113,003)	2,148,810	114,138	
	<u>\$ 28,661,813</u>	<u>\$ 25,800,000</u>	<u>\$ (26,513,003)</u>	<u>\$ 27,948,810</u>	<u>\$ 814,138</u>	

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Scheduled principal and interest payments on the Hospital's debt, adjusted for the Series 2017 Bonds, are as follows:

Year Ending December 31,	Principal	Interest	Total
2018	\$ 814,138	\$ 384,916	\$ 1,199,054
2019	815,285	373,619	1,188,904
2020	24,516,443	3,423,261	27,939,704
2021	117,613	17,491	135,104
2022	118,794	16,310	135,104
2023-2027	612,113	63,201	675,314
2028-2032	643,483	32,036	675,519
2033-2037	310,941	3,765	314,706
	<u>\$ 27,948,810</u>	<u>\$ 4,314,599</u>	<u>\$ 32,263,409</u>

The Series 2017 bonds require maintenance of certain debt service income ratios, debt to total capitalization, days cash on hand and require compliance with various other restrictive covenants. As of December 31, 2017, the Hospital believed it was in compliance with the restrictive covenants.

8. PATIENT SERVICE REVENUE

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

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment.

The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Medicaid and Hospital Assessment Fee and Healthy Indiana Plan Programs

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

The Hospital participates in the State of Indiana's Hospital Assessment Fee (HAF) Program. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals as reflected in the HAF Program expense reported in the statements of operations and changes in net assets. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Beginning July 1, 2017, hospitals also started funding the Healthy Indiana Plan (HIP), the State's Medicaid expansion program. The payments related to the HIP program mirror the Medicaid payments under the HAF program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2017, the Hospital recognized HAF and HIP Program expenses of approximately \$4,570,000, which resulted in increased Medicaid reimbursement. The HAF and HIP assessments are included in operating expenses in the statements of revenues, expenses and changes in net position. The Medicaid rate increases under the HAF Program and the HIP payments are included in patient service revenue in the statement revenues, expenses and changes in net position.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Hospital Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient service revenue of approximately \$2,100,000 during 2017. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

The following is a summary of patient service revenue for 2017:

Inpatient services	\$ 110,164,370
Outpatient services	163,331,528
Long-term care services	<u>33,354,527</u>
Gross patient service revenue	306,850,425
Contractual allowances	133,791,759
Charity care	2,208,033
Provision for bad debts	<u>8,080,298</u>
Deductions from revenue	<u>144,080,090</u>
Net patient service revenue	<u>\$ 162,770,335</u>

9. EMPLOYEE HEALTH AND DENTAL BENEFITS

The Hospital is self-insured for employee health and dental claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors. An excess policy through commercial insurance covers individual claims in excess of \$300,000 with no overall annual aggregate limit. Health and dental insurance expense for 2017 was approximately \$7,235,000.

Changes in the balance of claim liabilities are as follows:

Unpaid claims, beginning of year	\$ 800,000
Incurred claims and changes in estimates	7,234,978
Claim payments	<u>(6,984,978)</u>
Unpaid claims, end of year	<u>\$ 1,050,000</u>

10. MEDICAL MALPRACTICE

Medical Malpractice

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

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

11. CONCENTRATIONS OF CREDIT RISK

The Hospital is primarily located in Lawrenceburg, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of gross patient accounts receivable and gross patient revenues from self-pay and third party payors as of and for the year ended December 31, 2017 was as follows:

	<u>Receivables</u>	<u>Revenue</u>
Medicare	27%	42%
Medicaid	22%	23%
Blue Cross	9%	12%
Commercial and other payors	19%	15%
Self-pay payors	23%	8%
	<u>100%</u>	<u>100%</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

12. DEFINED BENEFIT PENSION PLAN

Plan Description

The Hospital has a defined benefit pension plan, Retirement Plan for Employees of Dearborn County Hospital (the Plan) as authorized by IC 16-22-3-11. The Plan provides retirement and death benefits to plan members and beneficiaries. The Plan was established by written agreement by the Hospital Board of Trustees. Buck Consultants is the actuary of the Plan.

Fifth Third Bank is the custodian and third party administrator of the Plan. For more information on the Plan, participants should contact the administrative offices at the Hospital.

The Plan year runs from November 1 through October 31.

Benefits Provided

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

Participants are fully vested after 10 years of service or attaining normal retirement age. For a participant entering the Plan before November 1, 2015, the normal retirement date is the first day of the month coincident with or following age 65. Normal retirement age for a participant entering the Plan after November 1, 2015 shall mean the later of (i) the participant's age at which the participant first becomes entitled to full or unreduced old age insurance benefits pursuant to the social security act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan. The early retirement date for vested participants who entered the Plan before November 1, 2015 and terminate employment prior to the normal retirement date can occur once an employee has attained age 55 with 10 years of credited service. Participants entering the Plan after November 1, 2015, who terminate employment prior to normal retirement date, shall be eligible for an early retirement benefit on the first day of the calendar month coincident with or next following the later of: (a) the date which is 10 years prior to the date the participant attains normal retirement age; or (b) the date on which the participant completes 10 years of credited service. The monthly amount of normal retirement benefit payable to a participant on the normal form of retirement benefit shall be equal to the greatest of: 1) the sum of \$4.50 multiplied by his years of credited service not in excess of 15 years; plus \$6.00 multiplied by his years of credited service in excess of 15 years up to 30 year; or 2) the sum of .675% of his average monthly compensation multiplied by his years of credited service not in excess of 15 years; plus .9% of his average monthly compensation multiplied by his years of credited service in excess of 15 years up to 30 years; plus .65% of his average monthly compensation in excess of his monthly covered compensation multiplied by his years of credited service not in excess of 30 years. For a participant entering the Plan before November 1, 2015, the early retirement benefit is reduced by 1/180 for each year month after age 60 and 1/360 for each month prior to age 60 by which the commencement of the early retirement benefit precedes the participant's normal retirement date.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

For participants entering the Plan after November 1, 2015, the participant's early retirement benefit shall be the actuarial equivalent value of the deferred vested accrued benefit. Disability retirement benefits are not available under the Plan. Death benefits under the Plan vary based on the participant's years of credited service, average annual compensation and other factors as defined under the Plan.

Funding Policy

The contributions of the Hospital to the Plan meet the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts. The contribution requirement is determined using an accepted actuarial cost method.

Employees Covered by Benefit Terms

As of October 31, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	250
Inactive plan members entitled to but not yet receiving benefits	219
Active plan members	759
	<u>1,228</u>

Contributions

The contribution requirements of plan members are established and can be amended by the Hospital Board of Trustees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital is required to contribute at an actuarially determined rate.

Net Pension Asset

The Hospital's net pension asset was measured as of October 31, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the October 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.0%
Investment rate of return	7.5%

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Mortality rates were based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2017.

The actuarial assumptions used in the October 31, 2017 valuation were based on the results of an actuarial experience study performed in November 2015.

The long-term expected rate of return on pension Plan investment is 7.50%.

The target allocation for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Money market funds	12.9%
Mutual funds - equity	60.5%
Mutual funds - fixed income	26.6%
Total	<u>100%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.80% for 2017. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will continue to follow the current funding policy. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset)

The following presents the net pension asset of the Hospital, calculated using the discount rate of 7.80%, as well as what the Hospital's net pension liability or asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.80%) or 1-percentage-point higher (8.80%) than the current rate:

	<u>1% Decrease (6.80%)</u>	<u>Current Discount Rate (7.80%)</u>	<u>1% Increase (8.80%)</u>
Hospital's net pension liability (asset)	\$ 2,013,946	\$ (3,764,113)	\$ (8,558,501)

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

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Changes in the Net Pension (Liability) Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Liability) Asset (a) - (b)
Balances at 12/31/16	\$ (41,923,869)	\$ (41,499,812)	\$ (424,057)
Changes of the year			
Service cost	(804,626)	-0-	(804,626)
Interest	(3,269,970)	-0-	(3,269,970)
Difference between expected and actual experience	(421,504)	-0-	(421,504)
Changes of assumptions	788,160	-0-	788,160
Benefit payments, including refunds of member contributions	1,642,440	1,642,440	-0-
Contributions - employer	-0-	(902,996)	902,996
Net investment income	-0-	(7,097,584)	7,097,584
Administrative expense	-0-	104,470	(104,470)
Net change	(2,065,500)	(6,253,670)	4,188,170
Balances at 12/31/17	<u>\$ (43,989,369)</u>	<u>\$ (47,753,482)</u>	<u>\$ 3,764,113</u>

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

For 2017, the Hospital recognized pension expense of approximately \$811,000. As of December 31, 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance, 1/1/2017	\$ 2,796,686	\$ 383,317
Differences between expected and actual experience	421,504	-0-
Amortization of expected versus actual	(166,674)	-0-
Changes in assumptions	-0-	788,160
Amortization of changes in assumptions	-0-	(212,323)
Differences between projected and actual earnings on plan investments	-0-	3,903,794
Amortization of projected versus actual earnings on plan investments	(652,030)	(780,759)
Balance, 12/31/17	<u>\$ 2,399,486</u>	<u>\$ 4,082,189</u>

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

<u>Year Ending December 31,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2018	\$ 818,704	\$ 993,082
2019	818,702	993,082
2020	543,648	993,082
2021	154,128	982,709
2022	64,304	120,234
	<u>\$ 2,399,486</u>	<u>\$ 4,082,189</u>

13. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a 403(b) retirement savings plan administered by Lincoln Financial Group. This plan provides retirement benefits to plan members and beneficiaries. Reports for the plan are available by contacting the Hospital's administrative offices.

The contribution requirements of members of the plan are established and can be amended by written agreement. Eligible employees are not required to contribute to the plan. The Hospital can elect discretionary contributions to the plan as determined by the Board of Trustees. The Hospital did not elect any discretionary contributions for 2017. Therefore, no expense was recognized in 2017 for this plan.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital has entered into various operating leases expiring through 2021 having initial or remaining noncancelable terms exceeding one year for rental of office space. Rental expenditures for these leases were approximately \$456,000 for 2017. The following is a schedule of annual future minimum rental payments.

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 288,379
2019	221,274
2020	202,438
2021	35,425
	<u>\$ 747,516</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$6,300,000 for 2017. Annual rent expense through 2018 will approximate \$6,500,000 under these leases.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

15. BLENDED COMPONENT UNITS

The Hospital's financial statements include the accounts of the blended component units, HSC and RSMC. Below is condensed financial information of HSC and RSMC as of and for the year ended December 31, 2017.

	HSC	RSMC
Balance sheet		
Assets		
Current assets	\$ 3,308,447	\$ 632,263
Capital assets	7,168,516	-0-
Other assets	-0-	30,000
Total assets	\$ 10,476,963	\$ 662,263
Liabilities		
Accounts payable and accrued expenses	\$ 1,263,193	\$ 662,263
Due to Hospital	16,267,789	-0-
Total liabilities	17,530,982	662,263
Net position		
Net investment in capital assets	7,168,516	-0-
Unrestricted	(14,222,535)	-0-
Total net position	(7,054,019)	-0-
Total liabilities and net position	\$ 10,476,963	\$ 662,263
Statement of revenues, expenses and changes in net position		
Operating revenues (patient and other)	\$ 18,257,200	\$ 1,025,835
Operating expenses		
Depreciation and amortization	1,184,266	-0-
Other expenses	24,126,953	1,026,806
Total expenses	25,311,219	1,026,806
Operating loss	(7,054,019)	(971)
Nonoperating revenues, net	-0-	971
Transfers from Hospital	-0-	-0-
Change in net position	(7,054,019)	-0-
Net position, beginning of year	-0-	-0-
Net position, end of year	\$ (7,054,019)	\$ -0-
Statement of cash flows		
Net cash flows from		
Operating activities	\$ (224,084)	\$ 335,185
Capital and related financing activities	(174,707)	-0-
Investing activities	-0-	971
Total	(398,791)	336,156
Cash and cash equivalents		
Beginning of year	456,729	31,606
End of year	\$ 57,938	\$ 367,762

The separate financial statement for each of the entities above may be obtained through contacting management of the Hospital.

HIGHPOINT HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

16. RECENTLY ISSUED ACCOUNTING STANDARDS

In January of 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which will be effective for periods beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In June of 2017, GASB issued GASB Statement No. 87, *Leases*, which will be effective for periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

In March of 2018, GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which will be for effective for periods beginning after June 15, 2018. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

In June of 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The Hospital is presently evaluating the impact of these standards on its future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS DECEMBER 31, 2017

	2017	2016	2015
Total pension liability			
Service cost	\$ 804,626	\$ 774,829	\$ 732,821
Interest	3,269,970	3,078,168	2,895,679
Difference between expected and actual experience	421,504	558,856	-0-
Changes of assumptions	(788,160)	(462,055)	-0-
Benefit payments	(1,642,440)	(1,403,242)	(1,261,223)
Net change in pension liability	2,065,500	2,546,556	2,367,277
Total pension liability - beginning	41,923,869	39,377,313	37,010,036
Total pension liability - ending (a)	<u>\$ 43,989,369</u>	<u>\$ 41,923,869</u>	<u>\$ 39,377,313</u>
Plan fiduciary net position			
Benefit payments	\$ (1,642,440)	\$ (1,403,242)	\$ (1,261,223)
Net investment income	7,097,584	921,848	997,337
Administrative expenses	(104,470)	(168,088)	(96,038)
Employer contributions	902,996	1,071,875	11,156,995
Net change in plan fiduciary net position	6,253,670	422,393	10,797,071
Plan fiduciary net position - beginning	41,499,812	41,077,419	30,280,348
Plan fiduciary net position - ending (b)	<u>\$ 47,753,482</u>	<u>\$ 41,499,812</u>	<u>\$ 41,077,419</u>
Net pension (asset) liability (a) - (b)	<u>\$ (3,764,113)</u>	<u>\$ 424,057</u>	<u>\$ (1,700,106)</u>
Plan fiduciary net position as a % of total pension liability	108.56%	98.99%	104.32%
Covered payroll	\$ 46,419,576	\$ 43,933,434	\$ 42,464,944
Net pension liability as a % of covered payroll	-8.11%	0.97%	-4.00%

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

HIGHPOINT HEALTH

SCHEDULE OF CONTRIBUTIONS DECEMBER 31, 2017

Plan Year End	Actuarially Determined Contribution	Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as % of Covered Payroll
10/31/2017	\$ 902,996	\$ 902,996	\$ -0-	\$ 46,419,576	1.95%
10/31/2016	\$ 873,748	\$ 1,071,875	\$ (198,127)	\$ 43,933,434	2.44%
10/31/2015	\$ 1,638,125	\$ 11,156,995	\$ (9,518,870)	\$ 42,464,944	26.27%
10/31/2014	\$ 1,877,275	\$ 1,877,275	\$ -0-	\$ 42,097,830	4.46%
10/31/2013	\$ 1,706,913	\$ 1,706,913	\$ -0-	\$ 42,029,955	4.06%
10/31/2012	\$ 1,508,887	\$ 1,508,887	\$ -0-	\$ 36,153,924	4.17%
10/31/2011	\$ 1,511,254	\$ 1,511,254	\$ -0-	\$ 36,220,786	4.17%
10/31/2010	\$ 1,402,407	\$ 1,402,407	\$ -0-	\$ 37,813,590	3.71%
10/31/2009	\$ 1,241,227	\$ 1,241,227	\$ -0-	\$ 37,812,790	3.28%
10/31/2008	\$ 989,643	\$ 989,643	\$ -0-	\$ 30,375,188	3.26%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	20 year level dollar
Remaining amortization period	20 year period
Asset valuation method	Market value
Salary increases	Ranging from 3.0% to 4.5%
Investment rate of return	7.50%
Retirement age	For a participant entering the Plan before 11/1/15 65 and 5 years of participation For a participant entering the Plan after 11/1/15 the later of (i) the participant's age at which the participant first becomes entitled to full or unreduced Old Age Insurance Benefits pursuant the Social Security Act, as amended, based solely on the participant's year of birth, or (ii) the participant's age on the fifth anniversary of the date the participant first entered the Plan

Mortality	RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2017
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SUPPLEMENTARY INFORMATION

HIGHPOINT HEALTH

COMBINING BALANCE SHEET – TOTAL HOSPITAL DECEMBER 31, 2017

ASSETS AND DEFERRED OUTFLOWS	Hospital	HSC	RSMC	Eliminations	Total Hospital
Current assets					
Cash and cash equivalents	\$ 27,152,132	\$ 57,938	\$ 367,762	\$ -0-	\$ 27,577,832
Patient accounts receivable, net	19,197,000	2,980,174	203,934	-0-	22,381,108
Inventory	1,785,977	18,614	-0-	-0-	1,804,591
Current portion of assets whose use is limited	814,138	-0-	-0-	-0-	814,138
Other current assets	13,118,484	251,721	60,567	-0-	13,430,772
Total current assets	62,067,731	3,308,447	632,263	-0-	66,008,441
Assets whose use is limited					
Internally designated, net of current portion	59,880,589	-0-	-0-	-0-	59,880,589
Total assets whose use is limited	59,880,589	-0-	-0-	-0-	59,880,589
Capital assets					
Land	75,208	1,332,904	-0-	-0-	1,408,112
Depreciable capital assets	120,612,390	13,157,060	-0-	-0-	133,769,450
Construction in progress	1,866,461	-0-	-0-	-0-	1,866,461
	122,554,059	14,489,964	-0-	-0-	137,044,023
Less accumulated depreciation	87,225,401	7,321,448	-0-	-0-	94,546,849
Capital assets, net	35,328,658	7,168,516	-0-	-0-	42,497,174
Pension asset	3,764,113	-0-	-0-	-0-	3,764,113
Other assets	16,451,933	-0-	30,000	(16,267,789)	214,144
Total assets	177,493,024	10,476,963	662,263	(16,267,789)	172,364,461
Deferred outflows					
	2,399,486	-0-	-0-	-0-	2,399,486
Total assets and deferred outflows	\$ 179,892,510	\$ 10,476,963	\$ 662,263	\$ (16,267,789)	\$ 174,763,947
LIABILITIES, DEFERRED INFLOWS AND NET POSITION					
Current liabilities					
Current portion of long-term debt	\$ 814,138	\$ -0-	\$ -0-	\$ -0-	\$ 814,138
Accounts payable	19,385,715	16,732,306	658,372	(16,267,789)	20,508,604
Accrued salaries, wages, and related liabilities	5,337,239	798,676	3,891	-0-	6,139,806
Estimated third-party payor settlements	1,184,836	-0-	-0-	-0-	1,184,836
Total current liabilities	26,721,928	17,530,982	662,263	(16,267,789)	28,647,384
Long-term debt, net of current portion	27,134,672	-0-	-0-	-0-	27,134,672
Pension liability	-0-	-0-	-0-	-0-	-0-
Total liabilities	53,856,600	17,530,982	662,263	(16,267,789)	55,782,056
Deferred inflows					
	4,082,189	-0-	-0-	-0-	4,082,189
Total liabilities and deferred inflows	57,938,789	17,530,982	662,263	(16,267,789)	59,864,245
Net position					
Net investment in capital assets	7,379,848	7,168,516	-0-	-0-	14,548,364
Unrestricted	114,573,873	(14,222,535)	-0-	-0-	100,351,338
Total net position	121,953,721	(7,054,019)	-0-	-0-	114,899,702
Total liabilities, deferred inflows and net position	\$ 179,892,510	\$ 10,476,963	\$ 662,263	\$ (16,267,789)	\$ 174,763,947

See report of independent auditors on pages 1 and 2.

HIGHPOINT HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – TOTAL HOSPITAL YEAR ENDED DECEMBER 31, 2017

	Hospital	HSC	RSMC	Eliminations	Total Hospital
Operating revenues					
Net patient service revenue	\$ 144,010,844	\$ 17,945,902	\$ 813,589	\$ -0-	\$ 162,770,335
Other operating revenue	2,650,152	311,298	212,246	-0-	3,173,696
Total operating revenues	146,660,996	18,257,200	1,025,835	-0-	165,944,031
Operating expenses					
Salaries and wages	34,538,685	16,809,886	-0-	-0-	51,348,571
Employee benefits	10,988,437	2,525,401	-0-	-0-	13,513,838
Professional fees and contract services	40,784,001	824,562	767,442	-0-	42,376,005
Supplies	17,339,735	1,652,793	78,066	-0-	19,070,594
Insurance	841,458	352,987	8,162	-0-	1,202,607
Facility and equipment leases	6,908,260	956,722	115,800	-0-	7,980,782
Repairs and maintenance	2,645,130	354,568	13,593	-0-	3,013,291
Utilities	1,696,708	334,538	11,805	-0-	2,043,051
HAF and HIP programs	4,570,412	-0-	-0-	-0-	4,570,412
Depreciation	5,017,574	1,184,266	-0-	-0-	6,201,840
Other	22,003,833	315,496	31,938	-0-	22,351,267
Total operating expenses	147,334,233	25,311,219	1,026,806	-0-	173,672,258
Operating loss	(673,237)	(7,054,019)	(971)	-0-	(7,728,227)
Nonoperating revenues (expenses)					
Investment income	7,172,079	-0-	971	-0-	7,173,050
Interest expense	(689,517)	-0-	-0-	-0-	(689,517)
Other	(34,760)	-0-	-0-	-0-	(34,760)
Total nonoperating revenues (expenses)	6,447,802	-0-	971	-0-	6,448,773
Transfers	-0-	-0-	-0-	-0-	-0-
Change in net position	5,774,565	(7,054,019)	-0-	-0-	(1,279,454)
Net position					
Beginning of year	116,179,156	-0-	-0-	-0-	116,179,156
End of year	<u>\$ 121,953,721</u>	<u>\$ (7,054,019)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 114,899,702</u>

See report of independent auditors on pages 1 and 2.