



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS



HENRY COMMUNITY HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry Community Health
New Castle, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Henry County Memorial Hospital d/b/a Henry Community Health (the Hospital), a component unit of Henry County, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 \$53.0 million and \$42.8 million as of December 31, 2017 and 2016, respectively, and total revenues of approximately \$4.3 million and \$3.9 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 \$5.2 million and \$5.1 million as of December 31, 2017 and 2016, respectively, and total revenues of approximately \$20.1 million and \$21.6 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 *Uniform Compliance Guidelines for Audits of Hospitals and State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Trustees
Henry Community Health
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, 2017 and 2016, 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.

Board of Trustees
Henry Community Health
New Castle, Indiana

REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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. The supplementary 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

Indianapolis, Indiana
April 27, 2018

REQUIRED SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

Management's discussion and analysis of Henry Community Health's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2017. 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 it. 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 COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

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 \$12.7 million or 11.2% from 2016 to 2017 and increased by approximately \$7.2 million or 6.9% from 2015 to 2016 as you can see from Table 1.

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

	2017	2016	2017-2016 Change	2015
Assets and deferred outflows				
Current assets	\$ 91,721,186	\$ 79,394,577	\$ 12,326,609	\$ 79,430,261
Capital assets, net	64,761,698	46,691,872	18,069,826	36,493,019
Other investments and assets	33,779,980	41,767,556	(7,987,576)	45,418,240
Total assets and deferred outflows	<u>\$ 190,262,864</u>	<u>\$ 167,854,005</u>	<u>\$ 22,408,859</u>	<u>\$ 161,341,520</u>
Liabilities				
Current liabilities	\$ 50,181,695	\$ 39,567,457	\$ 10,614,238	\$ 39,404,578
Long term debt, net of current portion	15,020,000	16,045,000	(1,025,000)	17,039,000
Other long term liabilities	818,459	701,536	116,923	584,613
Total liabilities	<u>\$ 66,020,154</u>	<u>\$ 56,313,993</u>	<u>\$ 9,706,161</u>	<u>\$ 57,028,191</u>
Net Position				
Net investment in capital assets	\$ 48,716,698	\$ 29,652,872	\$ 19,063,826	\$ 18,320,060
By donor - expendable - for capital acquisition	1,173,890	1,074,460	99,430	1,056,822
Unrestricted	74,352,122	80,812,680	(6,460,558)	84,936,447
Total net position	<u>\$ 124,242,710</u>	<u>\$ 111,540,012</u>	<u>\$ 12,702,698</u>	<u>\$ 104,313,329</u>

The increase in current assets relates primarily to an increase in supplies and other current assets during 2017 with the continued expansion into long-term care. 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 2015 to 2017 of approximately \$19.9 million or 18.9%, showing the stability of the Hospital and its operations.

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

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

In 2017, the Hospital's operating revenues increased by approximately \$7.4 million as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2017-2016 Change	2015
Operating revenues				
Net patient service revenues	\$ 266,158,577	\$ 259,877,366	\$ 6,281,211	\$ 264,752,965
Other operating revenues	5,799,645	4,642,179	1,157,466	6,791,198
Total operating revenues	271,958,222	264,519,545	7,438,677	271,544,163
Operating expenses				
Salaries and benefits	63,316,185	58,918,837	4,397,348	54,935,332
Medical supplies and drugs	20,741,741	20,274,197	467,544	20,603,785
Depreciation and amortization	6,273,994	5,620,494	653,500	5,292,112
Other operating expenses	173,134,380	173,756,901	(622,521)	179,418,283
Total operating expenses	263,466,300	258,570,429	4,895,871	260,249,512
Operating income	8,491,922	5,949,116	2,542,806	11,294,651
Non-operating revenues and expenses				
Investment income (loss)	4,616,694	1,814,039	2,802,655	(939,659)
Other non-operating revenues and expenses, net	(405,918)	(536,472)	130,554	42,081
Total non-operating revenues (expenses)	4,210,776	1,277,567	2,933,209	(897,578)
Change in net position	12,702,698	7,226,683	5,476,015	10,397,073
Net position beginning of year	111,540,012	104,313,329	7,226,683	93,916,256
Net position end of year	\$ 124,242,710	\$ 111,540,012	\$ 12,702,698	\$ 104,313,329

OPERATING INCOME

During 2017, there were increases in volumes, which attributed to increases in net patient service revenue during the year. Additionally, expenses increased at a lower rate compared to revenues, which contributed to the increase in operating income.

NONOPERATING INCOME

Nonoperating income was primarily driven by an increase in investment income, with income of approximately \$4.6 million in 2017 and \$1.8 million in 2016. This can be attributed to improved market conditions in 2017 compared to 2016.

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

Table 3: Hospital Cash Flows

	2017	2016	2017-2016 Change	2015
Cash flows from activities				
Operating	\$ 14,256,946	\$ 6,474,186	\$ 7,782,760	\$ 22,225,616
Capital and related financing	(25,428,227)	(16,764,185)	(8,664,042)	(11,089,102)
Investing	12,595,462	5,506,994	7,088,468	(41,044)
	<u>\$ 1,424,181</u>	<u>\$ (4,783,005)</u>	<u>\$ 6,207,186</u>	<u>\$ 11,095,470</u>

In 2017, the Hospital continued to generate strong cash flows from operations with approximately \$14.3 million generated in 2017 and approximately \$6.5 million generated in 2016. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment.

CAPITAL ASSETS

During 2017, the Hospital's net capital assets have increased by approximately \$18.1 million. This compares to an increase of approximately \$10.2 million during 2016. The change in capital assets is outlined in the following table:

	2017	2016	2017-2016 Change	2015
Land and improvements	\$ 5,256,228	\$ 4,960,004	\$ 296,224	\$ 4,774,319
Buildings and improvements	74,111,646	54,181,371	19,930,275	52,692,060
Equipment	66,215,169	64,999,727	1,215,442	57,270,784
Construction in progress	125,156	7,997,452	(7,872,296)	4,560,855
Total capital assets	<u>145,708,199</u>	<u>132,138,554</u>	<u>13,569,645</u>	<u>119,298,018</u>
Less accumulated depreciation	<u>80,946,501</u>	<u>85,446,682</u>	<u>(4,500,181)</u>	<u>82,804,999</u>
Capital assets, net	<u>\$ 64,761,698</u>	<u>\$ 46,691,872</u>	<u>\$ 18,069,826</u>	<u>\$ 36,493,019</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.

DEBT

The Hospital has the following debt outstanding, which approximates \$16.0 million as of December 31, 2017:

- 2015 tax-exempt revenue bonds

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

HENRY COMMUNITY HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

BAD DEBT AND CHARITY CARE

Bad debt and charity care decreased in 2017 compared to 2016 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>
2014	\$8,313,843	\$2,977,492	\$11,291,335	
2015	\$5,448,009	\$1,991,900	\$7,439,909	-34%
2016	\$5,971,428	\$1,137,690	\$7,109,118	-4%
2017	\$5,303,514	\$1,000,762	\$6,304,276	-11%

ECONOMIC OUTLOOK

Management believes that the health care industry's and the Hospital's operating margins will continue to be under pressure due to a variety of factors including, but not limited to, uncertainty regarding health care reform, changes in payor and services mix, and growth in operating expenses that are in excess of the increases in contractually arranged and legally established payments received for services rendered. In addition, the adoption of high-deductible health plans by employers continues to occur and patients are increasingly being held responsible for more of the cost of health care. Consequently, the health care market place has been increasingly more competitive. 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 factor affecting the Hospital is finding the balance in maintaining and controlling labor costs in the face of pressures on volume and pricing for its services in this increasingly competitive, retail-like environment.

CONTACTING 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 Community Health, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COMMUNITY HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Current assets		
Cash and money market deposit accounts	\$ 35,451,075	\$ 33,994,184
Patient accounts receivable, net of estimated allowance for uncollectible accounts of approximately \$8,600,000 in 2017 and \$6,800,000 in 2016	31,724,581	28,550,035
Supplies and other current assets	23,565,359	15,753,446
Due from related parties	-0-	178,456
Estimated third-party settlements	33,071	-0-
Current portion of assets whose use is limited	947,100	918,456
Total current assets	91,721,186	79,394,577
Investments	16,831,805	26,780,128
Assets whose use is limited		
Internally designated	10,714,778	10,779,942
By donor - expendable - for capital acquisition	1,173,890	1,074,460
	11,888,668	11,854,402
Less current portion	947,100	918,456
Total assets whose use is limited	10,941,568	10,935,946
Capital assets, net	64,761,698	46,691,872
Other assets	6,006,607	4,051,482
Total assets	\$ 190,262,864	\$ 167,854,005

LIABILITIES AND NET POSITION

	2017	2016
Current liabilities		
Current portion of long-term debt	\$ 1,025,000	\$ 994,000
Accounts payable and accrued expenses	44,795,178	34,194,485
Accrued wages and related liabilities	4,361,517	3,840,602
Estimated third-party settlements	-0-	538,370
Total current liabilities	50,181,695	39,567,457
Other long-term liabilities	818,459	701,536
Long-term debt, net of current portion	15,020,000	16,045,000
Total liabilities	66,020,154	56,313,993
Net position		
Unrestricted	74,352,122	80,812,680
Net investment in capital assets	48,716,698	29,652,872
Restricted		
By donor - expendable - for capital acquisition	1,173,890	1,074,460
Total net position	124,242,710	111,540,012
Total liabilities and net position	\$ 190,262,864	\$ 167,854,005

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating revenue		
Net patient service revenue	\$ 266,158,577	\$ 259,877,366
Other revenue	5,799,645	4,642,179
Total revenue	271,958,222	264,519,545
Operating expenses		
Salaries and benefits	63,316,185	58,918,837
Medical professional fees	1,019,950	958,618
Purchased services	110,055,003	108,960,439
Medical supplies and drugs	20,741,741	20,274,197
Other supplies	12,700,948	13,414,727
Depreciation and amortization	6,273,994	5,620,494
Utilities	5,028,917	4,807,931
Rent	16,555,312	16,876,061
Hospital assessment fee	2,093,643	2,265,705
Other	25,680,607	26,473,420
Total expenses	263,466,300	258,570,429
Operating income	8,491,922	5,949,116
Nonoperating revenues (expenses)		
Investment income	4,616,694	1,814,039
Interest expense	(458,464)	(368,545)
Other nonoperating	52,546	(167,927)
Total nonoperating revenues (expenses)	4,210,776	1,277,567
Change in net position	12,702,698	7,226,683
Net position		
Beginning of year	111,540,012	104,313,329
End of year	\$ 124,242,710	\$ 111,540,012

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 260,318,947	\$ 253,914,039
Cash paid to employees for wages and benefits	(62,795,270)	(59,295,651)
Cash paid to vendors for goods and services	(189,042,166)	(193,057,438)
Other operating receipts, net	5,775,435	4,913,236
Net cash flows from operating activities	14,256,946	6,474,186
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(24,211,135)	(18,096,940)
Loss on disposal of property and equipment	235,372	500,256
Proceeds from sale of property and equipment	-0-	2,335,003
Interest on long-term debt	(458,464)	(368,545)
Principal payments on long-term debt	(994,000)	(1,133,959)
Net cash flows from capital and related financing activities	(25,428,227)	(16,764,185)
Cash flows from investing activities		
Investment income and other non-operating	4,669,240	1,646,112
Change in other assets, net	(1,955,125)	(749,064)
Purchases of investments in assets whose use is limited - internally designated and investments	(4,000,096)	(7,043,876)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	13,980,873	11,671,460
Change in assets whose use is limited - restricted by donor, net	(99,430)	(17,638)
Net cash flows from investing activities	12,595,462	5,506,994
Net change in cash and cash equivalents	1,424,181	(4,783,005)
Cash and cash equivalents		
Beginning of year	34,257,888	39,040,893
End of year	\$ 35,682,069	\$ 34,257,888

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 8,491,922	\$ 5,949,116
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	6,273,994	5,620,494
Bad debts	5,303,514	5,971,428
Changes in assets and liabilities		
Patient accounts receivable	(8,478,060)	(8,501,068)
Supplies and other current assets	(7,811,913)	(2,475,668)
Accounts payable and accrued expenses	10,232,636	1,289,968
Accrued salaries and related liabilities	520,915	(376,814)
Other long-term liabilities	116,923	116,923
Due from related parties	178,456	47,789
Estimated third-party settlements	(571,441)	(1,167,982)
Net cash flows from operating activities	<u>\$ 14,256,946</u>	<u>\$ 6,474,186</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 35,451,075	\$ 33,994,184
In assets whose use is limited - internally designated	230,994	263,704
Total cash and cash equivalents	<u>\$ 35,682,069</u>	<u>\$ 34,257,888</u>
Supplemental cash flows information		
Property included in accounts payable	\$ 368,057	\$ 557,666

See accompanying notes to consolidated financial statements.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Henry County Memorial Hospital (HCMH) d/b/a Henry Community Health (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 certain 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.

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 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 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.

Blended Component Units

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 COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016.

Separate financial statements related to the individual component units may be obtained by contacting Hospital management.

All intercompany accounts and transactions have been eliminated.

Measurement Focus and Basis of Accounting

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

Cash and Money Market Deposit Accounts

Cash and money market deposit accounts 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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

During 2017, the Hospital's allowance for uncollectible accounts changed from \$6,800,000 to \$8,600,000. As of December 31, 2017, the allowance for uncollectible accounts of \$8,600,000 was comprised of approximately \$8,100,000 reserved for self-pay balances and \$500,000 reserved for third-party payor balances. As of December 31, 2016, the allowance for uncollectible accounts of \$6,800,000 was comprised of \$6,500,000 reserved for self-pay balances and \$300,000 reserved for third-party payor balances.

Any changes in net position in 2017 and 2016 due to the differences between original estimates and subsequent revisions for the final settlement of cost reports are immaterial to the financial statements.

Net revenues from Medicare and Medicaid programs accounted for approximately 33 percent and 37 percent, respectively, for the year ended 2017 and 33 percent and 36 percent, respectively, for the year ended 2016. 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.

Supplies and Other Current Assets

Supplies and other current assets consist primarily of drug and medical supply inventories, 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 within the next fiscal year. Supplies and other current assets consist of the following at December 31, 2017 and 2016:

	2017	2016
Drug and medical supply inventories	\$ 1,510,796	\$ 1,371,150
Prepaid expenses	1,088,865	1,026,068
Receivables related to long-term care	19,012,303	12,751,227
Other	1,953,395	605,001
	<u>\$ 23,565,359</u>	<u>\$ 15,753,446</u>

Inventories

Pharmaceutical inventories are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method while medical and all other supplies are priced using the last-in, first-out (LIFO) method.

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 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

Other Assets

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

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Investments in Affiliates

The Hospital has equity interests in joint ventures. These investments are recorded on the equity and cost methods of accounting in the Hospital's consolidated financial statements. These balances are included within other assets on the consolidated balance sheets. See footnote 14 for further information.

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 \$2,561,000 and \$2,304,000 for 2017 and 2016, 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.

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.

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

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 2017 and 2016, the Hospital recognized HAF Program expense of approximately \$2,090,000 and \$2,270,000, respectively, which resulted in increased Medicaid reimbursement.

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.

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 2017 and 2016, the Hospital recognized approximately \$67,000 and \$103,000, 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.

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 2017 or 2016.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2016. 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, 2016. 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 \$45,329,000, and a similar amount for state income taxes as of December 31, 2017. Including valuation allowances, DMC has a net deferred tax asset of \$-0- for 2017 and 2016. 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.

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, 2017 and 2016, 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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 2017 and 2016 were approximately \$1,001,000 and \$1,138,000, respectively.

Of the Hospital's total expenses reported, an estimated \$634,000 and \$712,000 arose from providing services to charity patients during the years ended December 31, 2017 and December 31, 2016, 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 2016 have been reclassified in order to conform to the 2017 presentation. Reclassifications decreasing supplies and other current assets and accounts payable and accrued expenses consist of approximately \$8,360,000 for the year ended December 31, 2016 and relate to the standardization of the presentation of amounts due to or from the long-term care operators. These reclassifications had no impact on total net position or changes in net position for 2016, as previously reported.

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 available to be issued, which is April 27, 2018.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Recently Issued Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases, which will be effective for periods beginning after June 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. The Hospital is presently evaluating the impact of this standard.

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:

	2017	2016
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 31,344,035	\$ 29,776,281
Receivable from Medicare	22,852,887	19,947,643
Receivable from Medicaid	14,145,225	9,405,924
Total patient accounts receivable	68,342,147	59,129,848
Less contractual allowances	(28,041,183)	(23,776,610)
Less allowances for uncollectible accounts	(8,576,383)	(6,803,203)
Patient accounts receivable, net	<u>\$ 31,724,581</u>	<u>\$ 28,550,035</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,724,735	\$ 3,256,272
Payable to suppliers	44,795,178	34,194,485
Accrued employee health benefit claims	636,782	584,330
Total accounts payable and accrued expenses	<u>\$ 49,156,695</u>	<u>\$ 38,035,087</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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:

	<u>2017</u>	<u>2016</u>
Internally designated		
Funded depreciation		
Investments	\$ 10,483,784	\$ 10,516,237
Cash	230,994	263,705
Donor restricted assets		
Investments	<u>1,173,890</u>	<u>1,074,460</u>
 Total assets limited to use	 <u><u>\$ 11,888,668</u></u>	 <u><u>\$ 11,854,402</u></u>

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2017 and 2016, 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, 2017					
Carrying Amount	Investment Maturities (in years)				More than 10
	Less than 1	1-5	6-10		
Mutual funds	\$ 23,541,051	\$ 23,541,051	\$ -0-	\$ -0-	\$ -0-
Common stocks	4,948,428	4,948,428	-0-	-0-	-0-
Money market mutual funds	230,994	230,994	-0-	-0-	-0-
	\$ 28,720,473	\$ 28,720,473	\$ -0-	\$ -0-	\$ -0-

December 31, 2016					
Carrying Amount	Investment Maturities (in years)				More than 10
	Less than 1	1-5	6-10		
Mutual funds	\$ 36,299,856	\$ 36,299,856	\$ -0-	\$ -0-	\$ -0-
Common stocks	2,070,970	2,070,970	-0-	-0-	-0-
Money market mutual funds	263,704	263,704	-0-	-0-	-0-
	\$ 38,634,530	\$ 38,634,530	\$ -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 – 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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Deposits and investments consist of the following as of December 31, 2017 and 2016:

	2017	2016
Carrying amount		
Deposits	\$ 35,682,069	\$ 34,257,889
Investments	28,489,479	38,370,825
	<u>\$ 64,171,548</u>	<u>\$ 72,628,714</u>
Included in the balance sheet captions		
Cash and money market deposit accounts	\$ 35,451,075	\$ 33,994,184
Investments	16,831,805	26,780,128
Internally designated	10,714,778	10,779,942
By donor - expendable - for capital acquisition	1,173,890	1,074,460
	<u>\$ 64,171,548</u>	<u>\$ 72,628,714</u>

Investment income (loss) for 2017 and 2016 is summarized as follows:

	2017	2016
Unrealized gains	\$ 3,317,859	\$ 79,167
Realized gains	567,064	514,236
Interest and dividends	731,771	1,220,636
Total investment income	<u>\$ 4,616,694</u>	<u>\$ 1,814,039</u>

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016:

- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual 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 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.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Diversified emerging markets	\$ 2,099,349	\$ 2,099,349	\$ -0-	\$ -0-
Foreign large blend	756,076	756,076	-0-	-0-
High yield bond	621,209	621,209	-0-	-0-
Intermediate-term bond	5,594,669	5,594,669	-0-	-0-
Large blend	2,685,241	2,685,241	-0-	-0-
Large growth	4,102,972	4,102,972	-0-	-0-
Mid growth	1,213,511	1,213,511	-0-	-0-
Multisector bond	4,105,386	4,105,386	-0-	-0-
Small value	655,663	655,663	-0-	-0-
World bond	306,916	306,916	-0-	-0-
Other	1,400,059	1,400,059	-0-	-0-
Money market mutual funds	230,994	-0-	230,994	-0-
Common stocks:				
Capital goods	91,750	91,750	-0-	-0-
Finance	94,245	94,245	-0-	-0-
Health care	107,120	107,120	-0-	-0-
Services	116,249	116,249	-0-	-0-
Technology	140,939	140,939	-0-	-0-
World stock	4,262,886	4,262,886	-0-	-0-
Other	135,239	135,239	-0-	-0-
Total investments & assets whose use is limited	<u>\$ 28,720,473</u>	<u>\$ 28,489,479</u>	<u>\$ 230,994</u>	<u>\$ -0-</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual funds:				
Diversified emerging markets	\$ 1,162,319	\$ 1,162,319	\$ -0-	\$ -0-
Foreign large blend	2,879,366	2,879,366	-0-	-0-
High yield bond	562,940	562,940	-0-	-0-
Intermediate-term bond	14,245,979	14,245,979	-0-	-0-
Large blend	4,291,083	4,291,083	-0-	-0-
Large growth	2,886,461	2,886,461	-0-	-0-
Mid-cap growth	820,965	820,965	-0-	-0-
Multisector bond	4,279,804	4,279,804	-0-	-0-
Small blend	898,716	898,716	-0-	-0-
Small value	832,618	832,618	-0-	-0-
World bond	1,782,270	1,782,270	-0-	-0-
Other	1,657,335	1,657,335	-0-	-0-
Money market mutual funds	263,704	-0-	263,704	-0-
Common stocks:				
Capital goods	74,143	74,143	-0-	-0-
Finance	102,430	102,430	-0-	-0-
Health care	96,483	96,483	-0-	-0-
Services	106,295	106,295	-0-	-0-
Technology	106,879	106,879	-0-	-0-
World stock	1,449,728	1,449,728	-0-	-0-
Other	135,012	135,012	-0-	-0-
Total investments & assets whose use is limited	<u>\$ 38,634,530</u>	<u>\$ 38,370,826</u>	<u>\$ 263,704</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 2017 and 2016.

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 COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2017 and 2016, follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Land	\$ 2,453,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,506,770	39,592	(264,795)	521,427	2,802,994
Buildings and improvements	54,181,371	13,819,072	(4,434,545)	10,545,748	74,111,646
Fixed equipment	15,793,587	264,041	(1,246,057)	3,972,429	18,784,000
Major equipment	49,206,140	2,353,892	(5,064,150)	935,287	47,431,169
Construction in progress	7,997,452	8,102,595	-0-	(15,974,891)	125,156
Total capital assets	<u>132,138,554</u>	<u>24,579,192</u>	<u>(11,009,547)</u>	<u>-0-</u>	<u>145,708,199</u>
Less accumulated depreciation:					
Land improvements	(2,198,517)	(43,187)	260,393	-0-	(1,981,311)
Buildings and improvements	(38,780,223)	(2,657,997)	4,367,778	-0-	(37,070,442)
Fixed equipment	(14,657,142)	(491,507)	1,240,495	-0-	(13,908,154)
Major equipment	(29,810,800)	(3,081,303)	4,905,509	-0-	(27,986,594)
Total accumulated depreciation	<u>(85,446,682)</u>	<u>(6,273,994)</u>	<u>10,774,175</u>	<u>-0-</u>	<u>(80,946,501)</u>
Capital assets, net	<u>\$ 46,691,872</u>	<u>\$ 18,305,198</u>	<u>\$ (235,372)</u>	<u>\$ -0-</u>	<u>\$ 64,761,698</u>

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Land	\$ 2,453,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,453,234
Land improvements	2,321,085	56,905	-0-	128,780	2,506,770
Buildings and improvements	52,692,060	859,197	-0-	630,114	54,181,371
Fixed equipment	15,789,321	4,266	-0-	-0-	15,793,587
Major equipment	41,481,463	11,281,433	(5,814,070)	2,257,314	49,206,140
Construction in progress	4,560,855	6,452,805	-0-	(3,016,208)	7,997,452
Total capital assets	<u>119,298,018</u>	<u>18,654,606</u>	<u>(5,814,070)</u>	<u>-0-</u>	<u>132,138,554</u>
Less accumulated depreciation:					
Land improvements	(2,175,637)	(22,880)	-0-	-0-	(2,198,517)
Buildings and improvements	(36,660,920)	(2,119,353)	50	-0-	(38,780,223)
Fixed equipment	(14,189,462)	(467,680)	-0-	-0-	(14,657,142)
Major equipment	(29,778,980)	(3,010,581)	2,978,761	-0-	(29,810,800)
Total accumulated depreciation	<u>(82,804,999)</u>	<u>(5,620,494)</u>	<u>2,978,811</u>	<u>-0-</u>	<u>(85,446,682)</u>
Capital assets, net	<u>\$ 36,493,019</u>	<u>\$ 13,034,112</u>	<u>\$ (2,835,259)</u>	<u>\$ -0-</u>	<u>\$ 46,691,872</u>

The Hospital did not have any significant capital commitments as of December 31, 2017.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, which was 2.08% as of December 31, 2017.

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 are collateralized by Hospital revenues.

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.

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

	Balance December 31, 2016	Additional borrowings	Payments	Balance December 31, 2017	Current portion	Long-term portion
Demand Revenue Bonds, Series 2015	\$ 17,039,000	\$ -0-	\$ 994,000	\$ 16,045,000	\$ 1,025,000	\$ 15,020,000
	<u>\$ 17,039,000</u>	<u>\$ -0-</u>	<u>\$ 994,000</u>	<u>\$ 16,045,000</u>	<u>\$ 1,025,000</u>	<u>\$ 15,020,000</u>
	Balance December 31, 2015	Additional borrowings	Payments	Balance December 31, 2016	Current portion	Long-term portion
Demand Revenue Bonds, Series 2015	18,000,000	-0-	961,000	17,039,000	994,000	16,045,000
Capital leases	172,959	-0-	172,959	-0-	-0-	-0-
	<u>\$ 18,172,959</u>	<u>\$ -0-</u>	<u>\$ 1,133,959</u>	<u>\$ 17,039,000</u>	<u>\$ 994,000</u>	<u>\$ 16,045,000</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, 2017 and 2016.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

<u>Years Ending December 31,</u>	Long-term debt	
	Principal	Interest
2018	\$ 1,025,000	\$ 240,675
2019	1,055,000	225,300
2020	1,087,000	209,475
2021	1,121,000	193,170
2022	1,155,000	176,355
2023-2027	6,325,000	611,100
2028-2032	4,277,000	129,600
	\$ 16,045,000	\$ 1,785,675

8. NET PATIENT SERVICE REVENUE

Patient service revenue for 2017 and 2016 consists of the following:

	2017	2016
Inpatient services	\$ 59,080,635	\$ 60,329,127
Outpatient services	168,726,994	158,015,562
Long term care	189,120,534	195,146,150
Gross patient service revenue	416,928,163	413,490,839
Contractual allowances	144,465,310	146,504,355
Bad debts	5,303,514	5,971,428
Charity care	1,000,762	1,137,690
Deductions from revenue	150,769,586	153,613,473
Net patient service revenue	\$ 266,158,577	\$ 259,877,366

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

9. PENSION PLANS

Plan Description

The Henry County Memorial Hospital Employees' Pension Plan is a defined contribution pension plan as authorized by Indiana Code 16-22-3-11. The Plan is administered by the Hospital and covers all employees who meet eligibility requirements as to age and length of service. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan's provisions and contribution requirements were established by written agreement between the Hospital Board of Trustees and Meridian Investment Advisors, Inc. (Plan Administrators). The Plan Administrators issue a publicly available financial report that includes the financial statements and required supplementary information of the plan. The report is available by contacting the Hospital's accounting department.

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 2017 and 2016 were approximately \$1,608,000 and \$1,434,000, respectively.

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 \$2,597,000 and \$2,487,000 as of December 31, 2017 and 2016, 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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 \$6,298,000 and \$5,515,000 for the years ended December 31, 2017 and 2016, respectively.

12. NET POSITION RESTRICTED BY DONOR

Net position restricted by donor of approximately \$1,074,000 at December 31, 2017 and 2016 consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

13. MALPRACTICE INSURANCE

The Hospital has a self-insurance plan for professional liability insurance. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment upon occurrence. The Hospital makes periodic deposits into a trust fund for the proper administration and protection of the fund.

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires 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.

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

14. INVESTMENTS IN AFFILIATES

The Hospital had 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 terminated in 2017 and the Cath Lab was dissolved.

As a result of this joint venture, the Hospital recognized a loss during 2017 of approximately \$3,000 and a gain of approximately \$57,000 in 2016, related to changes in equity of the Cath Lab. The gain or loss is included within other operating revenue in the consolidated statements of operations and changes in net position. During 2016, both owners of the Cath Lab decided to cease operations and the net assets were distributed equally to both parties during 2017.

The Hospital purchased a 1% ownership in St. Vincent Heart Center of Indiana, LLC (Heart Center) during 2017 for approximately \$2,557,000 and has a 1% ownership in the Heart Center at December 31, 2017. The Hospital has accounted for this investment under the cost method of accounting and assesses the investment for impairment on an annual basis. As of December 31, 2017, the investment was not deemed to be impaired. The investment is included in other assets on the consolidated balance sheets.

The Hospital has investments in other joint ventures included within other assets in the consolidated balance sheets, which are immaterial to the financial statements as a whole.

Separate financial statements related to these joint ventures may be obtained by contacting Hospital management

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 2017 and 2016 was as follows:

	Receivables		Revenues	
	2017	2016	2017	2016
Self pay	10%	15%	11%	7%
Medicare and Medicaid	54%	50%	70%	69%
Other commercial	36%	35%	19%	24%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

16. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, DMC and the Foundation. Separate financial statements related to the individual component units may be obtained by contacting Hospital management. The following is a summary of the financial position of DMC and the Foundation as of December 31, 2017, 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	\$ 310,176	\$ 552,404	\$ 862,580
Patient accounts receivable, net	3,441,522	-0-	3,441,522
Supplies and other current assets	822,794	4,665,333	5,488,127
Due from Hospital	260,666	4,478,605	4,739,271
Total current assets	4,835,158	9,696,342	14,531,500
Investments	-0-	16,831,805	16,831,805
Assets whose use is limited - by donor	-0-	1,173,890	1,173,890
Capital assets, net	326,650	25,290,208	25,616,858
Other assets	38,837	-0-	38,837
Total assets	\$ 5,200,645	\$ 52,992,245	\$ 58,192,890
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 77,900	\$ 77,900
Accounts payable and accrued expenses	577,591	558,422	1,136,013
Due to Hospital	51,221,002	979,944	52,200,946
Total current liabilities	51,798,593	1,616,266	53,414,859
Long-term debt, net of current portion	-0-	1,141,520	1,141,520
Total liabilities	51,798,593	2,757,786	54,556,379
Net position			
Unrestricted net position (deficit)	(46,924,598)	24,989,781	(21,934,817)
Net investment in capital assets	326,650	24,070,788	24,397,438
Restricted by donor for capital acquisition	-0-	1,173,890	1,173,890
Total net position	(46,597,948)	50,234,459	3,636,511
Total liabilities and net position	\$ 5,200,645	\$ 52,992,245	\$ 58,192,890

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 20,076,380	\$ 1,144,280	\$ 21,220,660
Other revenue	-0-	3,189,959	3,189,959
Total operating revenues	<u>20,076,380</u>	<u>4,334,239</u>	<u>24,410,619</u>
Operating expenses			
Salaries and benefits	13,241,688	320,301	13,561,989
Medical professional fees	-0-	-0-	-0-
Purchased services	3,297,996	284,499	3,582,495
Medical supplies and drugs	8,018,455	-0-	8,018,455
Other supplies	-0-	11,324	11,324
Depreciation and amortization	34,273	663,326	697,599
Utilities	127,453	276,725	404,178
Rent	592,495	-0-	592,495
Other	672,997	1,457,346	2,130,343
Total operating expenses	<u>25,985,357</u>	<u>3,013,521</u>	<u>28,998,878</u>
Gain (loss) from operations	(5,908,977)	1,320,718	(4,588,259)
Non-operating revenues (expenses)			
Investment income	14	3,416,130	3,416,144
Interest expense	(46,872)	(23,705)	(70,577)
Other nonoperating	63,420	4,375,807	4,439,227
Total nonoperating revenues (expenses)	<u>16,562</u>	<u>7,768,232</u>	<u>7,784,794</u>
Change in net position (deficit)	(5,892,415)	9,088,950	3,196,535
Net position - beginning of year	(40,705,533)	41,145,509	439,976
Net position - end of year	<u>\$ (46,597,948)</u>	<u>\$ 50,234,459</u>	<u>\$ 3,636,511</u>
Cash flows from activities			
Operating	\$ 97,687	\$ (5,753,015)	\$ (5,655,328)
Capital and related financing	(281,588)	(12,277,520)	(12,559,108)
Investing	63,434	17,640,831	17,704,265
Net change in cash and cash equivalents	<u>(120,467)</u>	<u>(389,704)</u>	<u>(510,171)</u>
Cash - beginning of year	430,643	942,108	1,372,751
Cash - end of year	<u>\$ 310,176</u>	<u>\$ 552,404</u>	<u>\$ 862,580</u>

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

The following is a summary of the financial position of DMC and the Foundation as of December 31, 2016, 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	\$ 430,643	\$ 942,109	\$ 1,372,752
Patient accounts receivable, net	3,474,053	-0-	3,474,053
Supplies and other current assets	842,800	97,810	940,610
Due from Hospital	186,664	159,084	345,748
Total current assets	4,934,160	1,199,003	6,133,163
Investments	-0-	26,780,128	26,780,128
Assets whose use is limited - by donor	-0-	1,074,460	1,074,460
Capital assets, net	126,207	13,775,263	13,901,470
Other assets	38,837	-0-	38,837
Total assets	\$ 5,099,204	\$ 42,828,854	\$ 47,928,058
Liabilities:			
Current portion of long-term debt	\$ -0-	\$ 75,544	\$ 75,544
Accounts payable and accrued expenses	558,509	152,549	711,058
Due to Hospital	45,246,228	235,832	45,482,060
Total current liabilities	45,804,737	463,925	46,268,662
Long-term debt, net of current portion	-0-	1,219,420	1,219,420
Total liabilities	45,804,737	1,683,345	47,488,082
Net position			
Unrestricted net position (deficit)	(40,831,740)	27,590,750	(13,240,990)
Net investment in capital assets	126,207	12,480,299	12,606,506
Restricted by donor for capital acquisition	-0-	1,074,460	1,074,460
Total net position	(40,705,533)	41,145,509	439,976
Total liabilities and net position	\$ 5,099,204	\$ 42,828,854	\$ 47,928,058

HENRY COMMUNITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

	DMC	Foundation	Total
Operating revenues			
Net patient service revenue	\$ 21,623,960	\$ 1,106,455	\$ 22,730,415
Other revenue	-0-	2,800,996	2,800,996
Total operating revenues	<u>21,623,960</u>	<u>3,907,451</u>	<u>25,531,411</u>
Operating expenses			
Salaries and benefits	13,620,894	352,544	13,973,438
Medical professional fees	-0-	-0-	-0-
Purchased services	4,130,720	295,337	4,426,057
Medical supplies and drugs	8,790,071	-0-	8,790,071
Other supplies	-0-	14,217	14,217
Depreciation and amortization	25,222	567,353	592,575
Utilities	124,436	256,719	381,155
Rent	566,835	-0-	566,835
Other	675,586	1,428,819	2,104,405
Total operating expenses	<u>27,933,764</u>	<u>2,914,989</u>	<u>30,848,753</u>
Gain (loss) from operations	(6,309,804)	992,462	(5,317,342)
Non-operating revenues (expenses)			
Investment income	247	988,239	988,486
Interest expense	(46,872)	(19,826)	(66,698)
Other nonoperating	77,236	3,225,438	3,302,674
Total nonoperating revenues (expenses)	<u>30,611</u>	<u>4,193,851</u>	<u>4,224,462</u>
Change in net position	(6,279,193)	5,186,313	(1,092,880)
Net position - beginning of year	(34,426,340)	35,959,196	1,532,856
Net position - end of year	<u>\$ (40,705,533)</u>	<u>\$ 41,145,509</u>	<u>\$ 439,976</u>
Cash flows from activities			
Operating	\$ (73,713)	\$ 1,366,186	\$ 1,292,473
Capital and related financing	(114,848)	(3,294,247)	(3,409,095)
Investing	77,483	2,651,151	2,728,634
Net change in cash and cash equivalents	<u>(111,078)</u>	<u>723,090</u>	<u>612,012</u>
Cash - beginning of year	541,721	219,018	760,739
Cash - end of year	<u>\$ 430,643</u>	<u>\$ 942,108</u>	<u>\$ 1,372,751</u>

SUPPLEMENTARY INFORMATION

HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2017

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 34,588,495	\$ 552,404	\$ 310,176	\$ -0-	\$ 35,451,075
Patient accounts receivable, net	28,283,059	-0-	3,441,522	-0-	31,724,581
Supplies and other current assets	22,417,819	4,665,333	822,794	(4,340,587)	23,565,359
Due from related parties	46,182,312	4,478,605	260,666	(50,921,583)	-0-
Estimated third-party settlements	33,071	-0-	-0-	-0-	33,071
Current portion of assets whose use is limited	947,100	-0-	-0-	-0-	947,100
Total current assets	132,451,856	9,696,342	4,835,158	(55,262,170)	91,721,186
Investments	-0-	16,831,805	-0-	-0-	16,831,805
Assets whose use is limited					
Internally designated	10,714,778	-0-	-0-	-0-	10,714,778
By donor - expendable - for capital acquisition	-0-	1,173,890	-0-	-0-	1,173,890
	10,714,778	1,173,890	-0-	-0-	11,888,668
Less current portion	947,100	-0-	-0-	-0-	947,100
Total assets whose use is limited	9,767,678	1,173,890	-0-	-0-	10,941,568
Capital assets, net	39,144,840	25,290,208	326,650	-0-	64,761,698
Other assets	7,399,183	-0-	38,837	(1,431,413)	6,006,607
Total assets	\$ 188,763,557	\$ 52,992,245	\$ 5,200,645	\$ (56,693,583)	\$ 190,262,864

See Report of Independent Auditors on Pages 1 through 3.

HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2017

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 947,100	\$ 77,900	\$ -0-	\$ -0-	\$ 1,025,000
Accounts payable and accrued expenses	48,151,802	558,422	577,591	(4,492,637)	44,795,178
Accrued wages and related liabilities	4,361,517	-0-	-0-	-0-	4,361,517
Due to related parties	-0-	979,944	51,221,002	(52,200,946)	-0-
Total current liabilities	<u>53,460,419</u>	<u>1,616,266</u>	<u>51,798,593</u>	<u>(56,693,583)</u>	<u>50,181,695</u>
Other long-term liabilities	818,459	-0-	-0-	-0-	818,459
Long-term debt, net of current portion	<u>13,878,480</u>	<u>1,141,520</u>	<u>-0-</u>	<u>-0-</u>	<u>15,020,000</u>
Total liabilities	<u>68,157,358</u>	<u>2,757,786</u>	<u>51,798,593</u>	<u>(56,693,583)</u>	<u>66,020,154</u>
Net position					
Unrestricted	96,286,939	24,989,781	(46,924,598)	-0-	74,352,122
Net investment in capital assets	24,319,260	24,070,788	326,650	-0-	48,716,698
Restricted					
By donor - expendable - for capital acquisition	-0-	1,173,890	-0-	-0-	1,173,890
Total net position	<u>120,606,199</u>	<u>50,234,459</u>	<u>(46,597,948)</u>	<u>-0-</u>	<u>124,242,710</u>
Total liabilities and net position	<u>\$ 188,763,557</u>	<u>\$ 52,992,245</u>	<u>\$ 5,200,645</u>	<u>\$ (56,693,583)</u>	<u>\$ 190,262,864</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2017

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 246,011,334	\$ 1,144,280	\$ 20,076,380	\$ (1,073,417)	\$ 266,158,577
Other revenue	6,541,137	3,189,959	-0-	(3,931,451)	5,799,645
Total revenue	<u>252,552,471</u>	<u>4,334,239</u>	<u>20,076,380</u>	<u>(5,004,868)</u>	<u>271,958,222</u>
Operating expenses					
Salaries and benefits	50,474,013	320,301	13,241,688	(719,817)	63,316,185
Medical professional fees	1,019,950	-0-	-0-	-0-	1,019,950
Purchased services	106,633,285	284,499	3,297,996	(160,777)	110,055,003
Medical supplies and drugs	13,047,734	-0-	8,018,455	(324,448)	20,741,741
Other supplies	12,689,624	11,324	-0-	-0-	12,700,948
Depreciation and amortization	5,576,395	663,326	34,273	-0-	6,273,994
Utilities	4,624,739	276,725	127,453	-0-	5,028,917
Rent	18,542,505	-0-	592,495	(2,579,688)	16,555,312
Hospital assessment fee	2,093,643	-0-	-0-	-0-	2,093,643
Other	24,770,402	1,457,346	672,997	(1,220,138)	25,680,607
Total expenses	<u>239,472,290</u>	<u>3,013,521</u>	<u>25,985,357</u>	<u>(5,004,868)</u>	<u>263,466,300</u>
Operating income (loss)	13,080,181	1,320,718	(5,908,977)	-0-	8,491,922
Nonoperating revenues (expenses)					
Investment income	1,247,422	3,416,130	14	(46,872)	4,616,694
Interest expense	(434,759)	(23,705)	(46,872)	46,872	(458,464)
Other nonoperating	(4,386,681)	4,375,807	63,420	-0-	52,546
Total nonoperating revenues (expenses)	<u>(3,574,018)</u>	<u>7,768,232</u>	<u>16,562</u>	<u>-0-</u>	<u>4,210,776</u>
Change in net position (deficit)	9,506,163	9,088,950	(5,892,415)	-0-	12,702,698
Net position beginning of year	111,100,036	41,145,509	(40,705,533)	-0-	111,540,012
Net position end of year	<u>\$ 120,606,199</u>	<u>\$ 50,234,459</u>	<u>\$ (46,597,948)</u>	<u>\$ -0-</u>	<u>\$ 124,242,710</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 240,139,173	\$ 1,144,280	\$ 20,108,911	\$ (1,073,417)	\$ 260,318,947
Cash paid to employees for wages and benefits	(49,953,098)	(320,301)	(13,241,688)	719,817	(62,795,270)
Cash paid to vendors for goods and services	(176,814,938)	(9,766,953)	(6,769,536)	4,309,261	(189,042,166)
Other operating receipts, net	6,541,137	3,189,959	-0-	(3,955,661)	5,775,435
Net cash flows from operating activities	19,912,274	(5,753,015)	97,687	-0-	14,256,946
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(11,798,148)	(12,178,271)	(234,716)	-0-	(24,211,135)
Loss on disposal of property and equipment	235,372	-0-	-0-	-0-	235,372
Interest on long-term debt	(434,759)	(23,705)	(46,872)	46,872	(458,464)
Principal payments on long-term debt, net	(918,456)	(75,544)	-0-	-0-	(994,000)
Net cash flows from capital and related financing activities	(12,915,991)	(12,277,520)	(281,588)	46,872	(25,428,227)
Cash flows from investing activities					
Investment income and other non-operating	(3,139,259)	7,791,937	63,434	(46,872)	4,669,240
Change in other assets, net	(1,955,125)	-0-	-0-	-0-	(1,955,125)
Purchases of investments in assets whose use is limited - internally designated and investments	(1,439,332)	(2,560,764)	-0-	-0-	(4,000,096)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	1,471,785	12,509,088	-0-	-0-	13,980,873
Change in assets whose use is limited - restricted by donor, net	-0-	(99,430)	-0-	-0-	(99,430)
Net cash flows from investing activities	(5,061,931)	17,640,831	63,434	(46,872)	12,595,462
Net change in cash and cash equivalents	1,934,352	(389,704)	(120,467)	-0-	1,424,181
Cash and cash equivalents					
Beginning of year	32,885,137	942,108	430,643	-0-	34,257,888
End of year	\$ 34,819,489	\$ 552,404	\$ 310,176	\$ -0-	\$ 35,682,069

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2017

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 13,080,181	\$ 1,320,718	\$ (5,908,977)	\$ -0-	\$ 8,491,922
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	5,576,395	663,326	34,273	-0-	6,273,994
Bad debts	4,004,588	-0-	1,298,926	-0-	5,303,514
Changes in assets and liabilities:					
Patient accounts receivable	(7,211,665)	-0-	(1,266,395)	-0-	(8,478,060)
Supplies and other current assets	(7,598,252)	(4,567,523)	20,006	4,333,856	(7,811,913)
Accounts payable and accrued expenses	14,117,327	405,873	19,082	(4,309,646)	10,232,636
Accrued salaries and related liabilities	520,915	-0-	-0-	-0-	520,915
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(2,122,697)	(3,575,409)	5,900,772	(24,210)	178,456
Estimated third-party settlements	(571,441)	-0-	-0-	-0-	(571,441)
Net cash flows from operating activities	\$ 19,912,274	\$ (5,753,015)	\$ 97,687	\$ -0-	\$ 14,256,946
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 34,588,495	\$ 552,404	\$ 310,176	\$ -0-	\$ 35,451,075
In assets whose use is limited - internally designated	230,994	-0-	-0-	-0-	230,994
Total cash and cash equivalents	\$ 34,819,489	\$ 552,404	\$ 310,176	\$ -0-	\$ 35,682,069
Supplemental cash flows information					
Property included in accounts payable	\$ 368,057	\$ -0-	\$ -0-	\$ -0-	\$ 368,057

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2016

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 32,621,432	\$ 942,109	\$ 430,643	\$ -0-	\$ 33,994,184
Patient accounts receivable, net	25,075,982	-0-	3,474,053	-0-	28,550,035
Supplies and other current assets	14,819,567	97,810	842,800	(6,731)	15,753,446
Due from related parties	44,059,615	159,084	186,664	(44,226,907)	178,456
Current portion of assets whose use is limited	918,456	-0-	-0-	-0-	918,456
Total current assets	<u>117,495,052</u>	<u>1,199,003</u>	<u>4,934,160</u>	<u>(44,233,638)</u>	<u>79,394,577</u>
Investments	-0-	26,780,128	-0-	-0-	26,780,128
Assets whose use is limited					
Internally designated	10,779,942	-0-	-0-	-0-	10,779,942
By donor - expendable - for capital acquisition	-0-	1,074,460	-0-	-0-	1,074,460
	<u>10,779,942</u>	<u>1,074,460</u>	<u>-0-</u>	<u>-0-</u>	<u>11,854,402</u>
Less current portion	918,456	-0-	-0-	-0-	918,456
Total assets whose use is limited	9,861,486	1,074,460	-0-	-0-	10,935,946
Capital assets, net	32,790,402	13,775,263	126,207	-0-	46,691,872
Other assets	5,444,058	-0-	38,837	(1,431,413)	4,051,482
Total assets	<u>\$ 165,590,998</u>	<u>\$ 42,828,854</u>	<u>\$ 5,099,204</u>	<u>\$ (45,665,051)</u>	<u>\$ 167,854,005</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2016

LIABILITIES AND NET POSITION	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 918,456	\$ 75,544	\$ -0-	\$ -0-	\$ 994,000
Accounts payable and accrued expenses	33,666,418	152,549	558,509	(182,991)	34,194,485
Accrued wages and related liabilities	3,840,602	-0-	-0-	-0-	3,840,602
Estimated third-party settlements	538,370	-0-	-0-	-0-	538,370
Due to related parties	-0-	235,832	45,246,228	(45,482,060)	-0-
Total current liabilities	<u>38,963,846</u>	<u>463,925</u>	<u>45,804,737</u>	<u>(45,665,051)</u>	<u>39,567,457</u>
Other long-term liabilities	701,536	-0-	-0-	-0-	701,536
Long-term debt, net of current portion	14,825,580	1,219,420	-0-	-0-	16,045,000
Total liabilities	<u>54,490,962</u>	<u>1,683,345</u>	<u>45,804,737</u>	<u>(45,665,051)</u>	<u>56,313,993</u>
Net position					
Unrestricted	94,053,670	27,590,750	(40,831,740)	-0-	80,812,680
Net investment in capital assets	17,046,366	12,480,299	126,207	-0-	29,652,872
Restricted					
By donor - expendable - for capital acquisition	-0-	1,074,460	-0-	-0-	1,074,460
Total net position	<u>111,100,036</u>	<u>41,145,509</u>	<u>(40,705,533)</u>	<u>-0-</u>	<u>111,540,012</u>
Total liabilities and net position	<u>\$ 165,590,998</u>	<u>\$ 42,828,854</u>	<u>\$ 5,099,204</u>	<u>\$ (45,665,051)</u>	<u>\$ 167,854,005</u>

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2016

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 238,368,823	\$ 1,106,455	\$ 21,623,960	\$ (1,221,872)	\$ 259,877,366
Other revenue	5,327,643	2,800,996	-0-	(3,486,460)	4,642,179
Total revenue	243,696,466	3,907,451	21,623,960	(4,708,332)	264,519,545
Operating expenses					
Salaries and benefits	45,822,242	352,544	13,620,894	(876,843)	58,918,837
Medical professional fees	958,618	-0-	-0-	-0-	958,618
Purchased services	104,702,703	295,337	4,130,720	(168,321)	108,960,439
Medical supplies and drugs	11,792,459	-0-	8,790,071	(308,333)	20,274,197
Other supplies	13,400,510	14,217	-0-	-0-	13,414,727
Depreciation and amortization	5,027,919	567,353	25,222	-0-	5,620,494
Utilities	4,426,776	256,719	124,436	-0-	4,807,931
Rent	18,463,443	-0-	566,835	(2,154,217)	16,876,061
Hospital assessment fee	2,265,705	-0-	-0-	-0-	2,265,705
Other	25,569,633	1,428,819	675,586	(1,200,618)	26,473,420
Total expenses	232,430,008	2,914,989	27,933,764	(4,708,332)	258,570,429
Operating income (loss)	11,266,458	992,462	(6,309,804)	-0-	5,949,116
Nonoperating revenues (expenses)					
Investment income	872,425	988,239	247	(46,872)	1,814,039
Interest expense	(348,719)	(19,826)	(46,872)	46,872	(368,545)
Other nonoperating	(3,470,601)	3,225,438	77,236	-0-	(167,927)
Total nonoperating revenues (expenses)	(2,946,895)	4,193,851	30,611	-0-	1,277,567
Change in net position	8,319,563	5,186,313	(6,279,193)	-0-	7,226,683
Net position beginning of year	102,780,473	35,959,196	(34,426,340)	-0-	104,313,329
Net position end of year	\$ 111,100,036	\$ 41,145,509	\$ (40,705,533)	\$ -0-	\$ 111,540,012

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 233,583,115	\$ 1,106,455	\$ 20,446,341	\$ (1,221,872)	\$ 253,914,039
Cash paid to employees for wages and benefits	(46,199,056)	(352,544)	(13,620,894)	876,843	(59,295,651)
Cash paid to vendors for goods and services	(188,162,565)	(2,188,721)	(6,899,160)	4,193,008	(193,057,438)
Other operating receipts, net	5,327,643	2,800,996	-0-	(3,215,403)	4,913,236
Net cash flows from operating activities	4,549,137	1,366,186	(73,713)	632,576	6,474,186
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(14,827,579)	(3,201,385)	(67,976)	-0-	(18,096,940)
Loss (gain) on disposal of property and equipment	501,006	-0-	(750)	-0-	500,256
Proceeds from sale of equipment	2,334,253	-0-	750	-0-	2,335,003
Interest on long-term debt	(348,719)	(19,826)	(46,872)	46,872	(368,545)
Principal payments on long-term debt, net	(1,060,923)	(73,036)	-0-	-0-	(1,133,959)
Net cash flows from capital and related financing activities	(13,401,962)	(3,294,247)	(114,848)	46,872	(16,764,185)
Cash flows from investing activities					
Investment income and other non-operating	(2,598,176)	4,213,677	77,483	(46,872)	1,646,112
Change in other assets, net	(116,488)	-0-	-0-	(632,576)	(749,064)
Purchases of investments in assets whose use is limited - internally designated and investments	(5,717,906)	(1,325,970)	-0-	-0-	(7,043,876)
Proceeds from sale of investments in assets whose use is limited - internally designated and investments	11,890,378	(218,918)	-0-	-0-	11,671,460
Change in assets whose use is limited - restricted by donor, net	-0-	(17,638)	-0-	-0-	(17,638)
Net cash flows from investing activities	3,457,808	2,651,151	77,483	(679,448)	5,506,994
Net change in cash and cash equivalents	(5,395,017)	723,090	(111,078)	-0-	(4,783,005)
Cash and cash equivalents					
Beginning of year	38,280,154	219,018	541,721	-0-	39,040,893
End of year	\$ 32,885,137	\$ 942,108	\$ 430,643	\$ -0-	\$ 34,257,888

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HENRY COMMUNITY HEALTH

CONSOLIDATING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 11,266,458	\$ 992,462	\$ (6,309,804)	\$ -0-	\$ 5,949,116
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	5,027,919	567,353	25,222	-0-	5,620,494
Bad debts	3,848,663	-0-	2,122,765	-0-	5,971,428
Changes in assets and liabilities:					
Patient accounts receivable	(5,200,684)	-0-	(3,300,384)	-0-	(8,501,068)
Supplies and other current assets	(2,475,313)	15,720	(22,806)	6,731	(2,475,668)
Accounts payable and accrued expenses	1,058,703	(16,268)	(107,255)	354,788	1,289,968
Accrued salaries and related liabilities	(376,814)	-0-	-0-	-0-	(376,814)
Other long-term liabilities	116,923	-0-	-0-	-0-	116,923
Due from (to) related parties	(7,548,736)	(193,081)	7,518,549	271,057	47,789
Estimated third-party settlements	(1,167,982)	-0-	-0-	-0-	(1,167,982)
Net cash flows from operating activities	<u>\$ 4,549,137</u>	<u>\$ 1,366,186</u>	<u>\$ (73,713)</u>	<u>\$ 632,576</u>	<u>\$ 6,474,186</u>
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 32,621,432	\$ 942,109	\$ 430,643	\$ -0-	\$ 33,994,184
In assets whose use is limited - internally designated	263,705	(1)	-0-	-0-	263,704
Total cash and cash equivalents	<u>\$ 32,885,137</u>	<u>\$ 942,108</u>	<u>\$ 430,643</u>	<u>\$ -0-</u>	<u>\$ 34,257,888</u>
Supplemental cash flows information					
Property included in accounts payable	\$ 557,666	\$ -0-	\$ -0-	\$ -0-	\$ 557,666

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