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May 11, 2011

Board of Directors
Hendricks Regional Health
P.O. Box 409
Danville, Indiana 46122-0409

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Hendricks Regional Health, as of December 31, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

CPAs / ADVISORS



HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

We have audited the accompanying consolidated balance sheets of Hendricks Regional Health (Hospital) as of December 31, 2010 and 2009 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2010 and 2009, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

March 28, 2011

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

This section of Hendricks Regional Health's (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance for the years ended December 31, 2010 and 2009. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc. and Hendricks Ambulatory Management Company. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net assets increased approximately \$8,302,000 or 4.4% in 2010.
- The Hospital reported operating income of approximately \$8,983,000 for 2010, representing a decrease of approximately \$3,874,000 in comparison to the year 2009 results.
- The Hospital continued its expansion of facilities and equipment in 2010 as net capital assets increased approximately \$18,850,000.
- The Hospital's assets whose use is limited decreased approximately \$10,485,000 as a result of the expenditures on capital assets, but was increased by operating income and investment returns.

Using This Annual Report

The Hospital's consolidated financial statements consist of four statements – a Balance Sheet; a Statement of Revenues and Expenses, a Statement of Changes in Net Assets; and a Statement of Cash Flows. These consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

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

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues and Expenses. The Consolidated Statements of Changes in Net Assets summarizes the changes in net assets for the year.

Finally, the Consolidated Statement of Cash Flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and the change in cash balance during the year.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

The Balance Sheet and Statement of Revenues and Expenses

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues and expenses 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 assets and changes in them. Think of the Hospital's net assets—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 assets are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Table 1: Balance Sheets

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Assets					
Current assets	\$ 41,101,612	\$ 46,667,779	\$ (5,566,167)	\$ 32,317,330	\$ 14,350,449
Capital assets, net	208,952,484	190,102,712	18,849,772	164,338,989	25,763,723
Assets whose use is limited	87,508,387	97,994,272	(10,485,885)	40,990,043	57,004,229
Other assets	1,999,696	2,170,736	(171,040)	1,147,035	1,023,701
Total assets	<u>\$ 339,562,179</u>	<u>\$ 336,935,499</u>	<u>\$ 2,626,680</u>	<u>\$ 238,793,397</u>	<u>\$ 98,142,102</u>
Liabilities					
Current liabilities	\$ 19,105,653	\$ 20,655,813	\$ (1,550,160)	\$ 17,809,357	\$ 2,846,456
Long-term debt	122,861,525	126,987,109	(4,125,584)	51,537,964	75,449,145
Total liabilities	141,967,178	147,642,922	(5,675,744)	69,347,321	78,295,601
Net assets					
Invested in capital assets, net of related debt	82,095,959	59,270,603	22,825,356	111,451,025	(52,180,422)
Held by trustee	9,088,535	33,228,357	(24,139,822)	-	33,228,357
Unrestricted	104,992,418	95,811,681	9,180,737	57,246,978	38,564,703
Net assets - controlling interest	196,176,912	188,310,641	7,866,271	168,698,003	19,612,638
Non-controlling interest	1,418,089	981,936	436,153	748,073	233,863
Total net assets	<u>197,595,001</u>	<u>189,292,577</u>	<u>8,302,424</u>	<u>169,446,076</u>	<u>19,846,501</u>
Total liabilities and net assets	<u>\$ 339,562,179</u>	<u>\$ 336,935,499</u>	<u>\$ 2,626,680</u>	<u>\$ 238,793,397</u>	<u>\$ 98,142,102</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

The significant changes in the Hospital's assets were capital assets increasing \$18,850,000 for the addition of a new surgical tower and other capital purchases. Assets whose use is limited decreased \$10,486,000 in 2010 compared to 2009. The decrease in assets whose use is limited is mainly the result of capital expenditures from funds held by trustee for the new surgical tower.

In 2009, the Hospital entered into a venture with the YMCA of Greater Indianapolis to construct a medical office building and wellness facility in Avon, Indiana. Costs incurred through December 31, 2010 were approximately \$10,941,000. During 2010, the Hospital made a contribution to the YMCA of approximately \$3,125,000 in support of the project.

Net assets increased by approximately \$8,302,000 from 2009 through 2010. The increase relates to income driven from operations and investment returns exceeding interest expense.

Table 2: Statements of Revenues and Expenses

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Operating revenue					
Net patient service revenue	\$ 165,983,709	\$ 161,085,048	\$ 4,898,661	\$ 162,838,412	\$ (1,753,364)
Other operating revenue	2,549,663	2,284,170	265,493	3,599,555	(1,315,385)
Total operating revenue	<u>168,533,372</u>	<u>163,369,218</u>	<u>5,164,154</u>	<u>166,437,967</u>	<u>(3,068,749)</u>
Operating expenses					
Salaries and benefits	93,793,377	89,796,438	3,996,939	89,095,263	701,175
Medical supplies and drugs	19,759,109	17,310,001	2,449,108	16,421,957	888,044
Depreciation and amortization	12,553,011	12,222,315	330,696	12,352,736	(130,421)
Other operating expenses	33,445,275	31,183,429	2,261,846	34,969,693	(3,786,264)
Total operating expenses	<u>159,550,772</u>	<u>150,512,183</u>	<u>9,038,589</u>	<u>152,839,649</u>	<u>(2,327,466)</u>
Operating income	8,982,600	12,857,035	(3,874,435)	13,598,318	(741,283)
Nonoperating income (expense), net	<u>2,885,402</u>	<u>7,298,220</u>	<u>(4,412,818)</u>	<u>(6,199,943)</u>	<u>13,498,163</u>
Consolidated change in net assets before special item	11,868,002	20,155,255	(8,287,253)	7,398,375	12,756,880
Special item					
Contribution	<u>(3,124,909)</u>	-0-	<u>(3,124,909)</u>	-0-	-0-
Consolidated change in net assets	8,743,093	20,155,255	(11,412,162)	7,398,375	12,756,880
Less amount attributable to non-controlling interest	<u>(846,822)</u>	<u>(542,617)</u>	<u>(304,205)</u>	<u>(326,850)</u>	<u>(215,767)</u>
Change in net assets attributable to controlling interest	<u>\$ 7,896,271</u>	<u>\$ 19,612,638</u>	<u>\$ (11,716,367)</u>	<u>\$ 7,071,525</u>	<u>\$ 12,541,113</u>

The Hospital's performance in 2010 was solid with a return on equity of 4.4% compared to prior year's 10.6% which was above historical norms.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

Total operating revenue increased approximately \$5,164,000 as increases in inpatient and outpatient revenues were offset by increases in contractual allowances, charity care and bad debt expenses.

Expenses increased by approximately \$9,039,000 between 2009 and 2010.

Nonoperating income (expense) decreased by approximately \$4,413,000 due to investment income of approximately \$7,181,000 in 2010 compared to \$10,039,000 in 2009 and interest expense increasing approximately \$1,555,000 over 2009.

The Hospital's discharges for 2010 declined 4.3% to 5,094 from 2009's total of 5,323; the Hospital's adjusted patient days decreased to 74,238 in 2010 compared to 78,788 in 2009. The decrease in adjusted patient days was due to a slight decline in the Hospital's outpatient volumes.

During 2010, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$3,645,000 compared to payments of \$3,756,000 received in 2009.

Statements of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes 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?"

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Cash flow from activities					
Operating	\$ 18,691,164	\$ 23,352,055	\$ (4,660,891)	\$ 25,652,040	\$ (2,299,985)
Capital and related financing	(42,378,941)	38,468,050	(80,846,991)	(37,223,293)	75,691,343
Investing	5,728,827	(27,114,037)	32,842,864	6,563,673	(33,677,710)
Change in cash and cash equivalents	<u>\$ (17,958,950)</u>	<u>\$ 34,706,068</u>	<u>\$ (52,665,018)</u>	<u>\$ (5,007,580)</u>	<u>\$ 39,713,648</u>

Total cash and cash equivalents decreased approximately \$17,959,000 in 2010. Operating activities generated cash and cash equivalents of \$18,691,000 during 2010 mainly from operating income. Capital and related financing decreased cash and cash equivalents by \$42,379,000 during 2010 mainly as the result of expenditures for property and equipment additions. Investing activities increased cash and cash equivalents by \$5,729,000 due to investment income.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

Sources of Revenue

During 2010, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 44.1% of the Hospital's gross revenues in 2010 but only 20.6% of the Hospital's net patient service revenues.

Following is a table of major sources of gross patient revenues for 2010:

<u>Payor</u>	<u>% of Gross Revenues</u>
Medicare	37.9%
Anthem/Blue Cross	29.9%
Other	5.5%
Self Pay	6.9%
Medicaid	6.2%
United Health Care	4.9%
Sagamore	3.2%
Cigna	3.4%
Aetna	2.1%
Total	<u>100.0%</u>

The Hospital's patient mix between inpatient and outpatient services is different than other hospital averages. The Hospital's outpatient services represented 73% of the Hospital's gross patient revenue in 2010. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 50% for 2010.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010, 2009 AND 2008

Capital Assets

During 2010, the Hospital invested \$31,403,000 in capital assets net of asset disposals. The change in capital assets is outlined in the following table:

	2010	2009	Change 2010 - 2009	2008	Change 2009 - 2008
Land and improvements	\$ 24,874,428	\$ 24,627,778	\$ 246,650	\$ 23,917,943	\$ 709,835
Buildings and fixed equipment	217,881,954	156,967,529	60,914,425	154,544,517	2,423,012
Major moveable equipment	70,855,190	63,564,066	7,291,124	60,945,080	2,618,986
Construction in progress	11,648,929	48,698,345	(37,049,416)	16,582,427	32,115,918
Total capital assets	325,260,501	293,857,718	31,402,783	255,989,967	37,867,751
Less accumulated depreciation	116,308,017	103,755,006	12,553,011	91,650,978	12,104,028
Capital assets - net	<u>\$ 208,952,484</u>	<u>\$ 190,102,712</u>	<u>\$ 18,849,772</u>	<u>\$ 164,338,989</u>	<u>\$ 25,763,723</u>

As previously mentioned the Hospital continues to increase space and equipment resources to meet the needs of the community. The Hospital strives to replace equipment as it becomes obsolete as well as upgrade equipment as needed.

Debt

In 2009, the Hospital issued \$75 million of new debt that was used to fund the construction of the new surgical tower. The 2009 bonds were issued through the Indiana Bond Bank. The Hospital, in 2009, also has new debt of \$5 million through the Indiana Taxable Economic Development Revenue Bonds, Series 2009 issue. More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

Economic Outlook

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

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010, 2009 AND 2008

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, 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 Hospital Controller's Office, at PO Box 409, Danville, IN, 46122-0409.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 4,881,383	\$ 6,233,667
Investments	8,083,121	13,061,943
Patient accounts receivable, less allowance for uncollectible account of \$7,772,881 in 2010 and \$6,638,893 in 2009	22,493,863	22,003,023
Inventories	817,783	857,097
Other current assets	830,462	667,049
Current portion of assets whose use is limited	3,995,000	3,845,000
Total current assets	<u>41,101,612</u>	<u>46,667,779</u>
Assets whose use is limited		
Board designated funded depreciation investments	82,082,003	68,251,589
Held by trustee	9,088,535	33,228,357
Other board designated investments	332,849	359,326
Total assets whose use is limited	<u>91,503,387</u>	<u>101,839,272</u>
Less current portion	3,995,000	3,845,000
Noncurrent assets whose use is limited	<u>87,508,387</u>	<u>97,994,272</u>
Capital assets		
Land	18,731,398	18,509,748
Depreciable capital assets	306,529,103	275,347,970
	<u>325,260,501</u>	<u>293,857,718</u>
Less accumulated depreciation	116,308,017	103,755,006
Capital assets, net	<u>208,952,484</u>	<u>190,102,712</u>
Other assets	1,999,696	2,170,736
Total assets	<u>\$ 339,562,179</u>	<u>\$ 336,935,499</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
Current liabilities		
Current portion of long-term debt	\$ 3,995,000	\$ 3,845,000
Accounts payable	3,464,536	2,648,296
Accrued salaries and related liabilities	7,388,488	6,929,050
Accrued expenses and other current liabilities	1,470,101	2,792,469
Accrued interest	2,105,433	2,153,496
Estimated third-party settlements	682,095	2,287,502
Total current liabilities	<u>19,105,653</u>	<u>20,655,813</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>122,861,525</u>	<u>126,987,109</u>
Total liabilities	<u>141,967,178</u>	<u>147,642,922</u>
Net assets		
Invested in capital assets, net of related debt	82,095,959	59,270,603
Held by trustee	9,088,535	33,228,357
Unrestricted	104,992,418	95,811,681
Net assets - controlling interest	<u>196,176,912</u>	<u>188,310,641</u>
Non-controlling interest	1,418,089	981,936
Total net assets	<u>197,595,001</u>	<u>189,292,577</u>
Total liabilities and net assets	<u><u>\$ 339,562,179</u></u>	<u><u>\$ 336,935,499</u></u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating revenue		
Net patient service revenue	\$ 165,983,709	\$ 161,085,048
Other operating revenue	2,549,663	2,284,170
Total operating revenue	168,533,372	163,369,218
Operating expenses		
Salaries and wages	73,956,181	70,765,817
Employee benefits	19,837,196	19,030,621
Professional medical fees	1,240,762	1,172,955
Other professional fees	9,177,450	9,156,389
Medical and surgical supplies	13,084,542	11,974,395
Drugs and intravenous solutions	6,674,567	5,335,606
Food	915,603	875,420
Purchased services	11,660,588	10,750,554
Equipment rental	995,394	781,983
Telephone and utilities	3,533,346	3,264,809
Depreciation and amortization	12,553,011	12,222,315
Insurance	1,656,788	1,418,309
Other supplies and expenses	4,265,344	3,763,010
Total operating expenses	159,550,772	150,512,183
Operating income	8,982,600	12,857,035
Nonoperating income (expense)		
Investment income	7,181,370	10,039,167
Interest expense	(4,295,968)	(2,740,947)
Total nonoperating income (expense), net	2,885,402	7,298,220
Consolidated change in net assets before special item	11,868,002	20,155,255
Special item		
Contribution	(3,124,909)	-0-
Consolidated change in net assets	8,743,093	20,155,255
Less amount attributable to non-controlling interest	(846,822)	(542,617)
Change in net assets attributable to controlling interest	\$ 7,896,271	\$ 19,612,638

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	Controlling Interest	Non-controlling Interest	Total
Net asset balances			
December 31, 2008	\$ 168,698,003	\$ 748,073	\$ 169,446,076
Consolidated change in net assets	19,612,638	542,617	20,155,255
Contributions	-0-	231,120	231,120
Distributions	-0-	(539,874)	(539,874)
December 31, 2009	188,310,641	981,936	189,292,577
Consolidated change in net assets	7,866,271	846,822	8,713,093
Contributions	-0-	108,640	108,640
Distributions	-0-	(519,309)	(519,309)
December 31, 2010	<u>\$ 196,176,912</u>	<u>\$ 1,418,089</u>	<u>\$ 197,595,001</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating activities		
Cash received from patient services	\$ 163,887,462	\$ 164,793,967
Cash paid for salaries, wages and benefits	(93,333,939)	(90,926,963)
Cash paid to vendors and suppliers	(54,412,022)	(54,513,119)
Other receipts, net	2,549,663	3,998,170
Net cash flows from operating activities	18,691,164	23,352,055
Capital and related financing activities		
Acquisition and construction of capital assets	(30,654,332)	(36,286,550)
Contributions from non-controlling interest	108,640	231,120
Dividends to non-controlling interest	(519,309)	(539,874)
Contribution for property	(3,124,909)	-0-
Interest on long-term debt	(4,344,031)	(1,242,067)
Proceeds from long-term debt	-0-	80,000,000
Payments for bond premium and issue costs	-0-	(1,419,579)
Principal payments for long-term debt	(3,845,000)	(2,275,000)
Net cash flows from capital and related financing activities	(42,378,941)	38,468,050
Investing activities		
Investment income	7,181,370	10,039,167
Other changes in investments and assets whose use is limited	(1,452,543)	(37,153,204)
Net cash flows from investing activities	5,728,827	(27,114,037)
Net change in cash and cash equivalents	(17,958,950)	34,706,068
Cash and cash equivalents		
Beginning of year	40,452,196	5,746,128
End of year	\$ 22,493,246	\$ 40,452,196
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 4,881,383	\$ 6,233,667
In investments	8,083,121	13,061,943
In board designated funds	9,528,742	21,156,586
Total cash and cash equivalents	\$ 22,493,246	\$ 40,452,196

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 8,982,600	\$ 12,857,035
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	12,553,011	12,222,315
Bad debts	16,072,736	14,653,786
Changes in operating assets and liabilities		
Patient accounts receivable	(16,563,576)	(13,095,677)
Inventories	39,314	(58,298)
Other current assets	(163,413)	643,507
Other assets	171,040	(1,023,701)
Accounts payable	67,789	(3,136,248)
Accrued salaries and related liabilities	459,438	(1,130,525)
Accrued expenses and other current liabilities	(1,322,368)	(730,949)
Estimated third-party settlements	(1,605,407)	2,150,810
Net cash flows from operating activities	\$ 18,691,164	\$ 23,352,055
 Supplemental disclosure of cash flows information		
Cash paid for interest, net of interest capitalized of \$1,790,000 in 2010 and \$2,924,000 in 2009	\$ 4,344,031	\$ 1,242,067
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ 748,451	\$ 1,699,488

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Hendricks Regional Health (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides inpatient, outpatient and emergency care. The Board of County Commissioners of Hendricks County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Hendricks County.

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hendricks County that is attributable to the transactions of the Hospital, its Foundation and controlled subsidiaries. They do not purport to, and do not, present fairly the financial position of Hendricks County as of December 31, 2010 and 2009, the changes in its financial position or its cash flows for the years then ended.

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

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Blended Component Unit - Hendricks Regional Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital. It also includes the accounts of the Blended Component Unit - Hendricks Ambulatory Management Company, LLC (HAMCO), a separate limited liability company entity.

HAMCO was formed to manage the Hospital's outpatient surgery center. As the sole Class B member of HAMCO, the Hospital's voting rights are 50%. The Hospital does maintain control over certain decisions which may have a direct effect on the Hospital's charitable mission or tax exempt status. The Hospital maintains substantial participation in the operations of HAMCO in addition to an economic interest in HAMCO's financial position.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

All significant transactions between the entities have been eliminated for financial reporting purposes.

Enterprise Fund Accounting

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

Use of Estimates

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

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents and Statements of Cash Flows

Cash and cash equivalents include all cash held in checking, savings and money market 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.

Investments

Investments consist mainly of money market funds in 2010 and 2009. Investments are reported at contract value which approximates fair value.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2010. Amounts for unresolved cost reports for 2007 through 2010 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2010 and 2009, the Hospital recognized \$-0- in the statements of revenues and expenses, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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. Inventories at year-end consist of the following:

	<u>2010</u>	<u>2009</u>
Medical supplies and other	\$ 458,811	\$ 540,246
Pharmaceutical	<u>358,972</u>	<u>316,851</u>
	<u>\$ 817,783</u>	<u>\$ 857,097</u>

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, mutual funds and fixed income obligations. Investment income, to the extent not capitalized, is reported as nonoperating income in the consolidated statements of revenues and expenses.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed the Hospital's capitalization threshold and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and fixed equipment	4-50 years
Major movable equipment	5-15 years

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$1,552,000 and \$1,374,000 for 2010 and 2009, respectively.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist 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. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt. Net assets related to non-controlling interest are reported separately on the consolidated balance sheets.

Consolidated Statements of Revenues and Expenses

The Hospital's consolidated statements of revenues and expenses distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the Hospital's principal activity. Contributions and investment income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, excluding interest costs.

Special Item

A special item is a significant transaction or event that is either unusual in nature or infrequent in occurrence. During 2010, the Hospital recorded a special item of approximately \$3,125,000 related to a contribution to an unrelated not-for-profit entity.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$1,953,708 as of December 31, 2010 and 2009. Accumulated amortization as of December 31, 2010 and 2009 was \$291,506 and \$184,678, respectively. Amortization expense for the next five succeeding years should approximate \$106,000 per year. Bond issue costs are recorded in other assets on the consolidated balance sheets.

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 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 from Income Tax which is an informational return only.

HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2009. 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).

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the consolidated financial statements.

Reclassifications

Certain amounts from the 2009 consolidated financial statements have been reclassified to conform to the current year presentation.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Litigation

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

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; 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.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

On July 1, 2006, the Hospital became 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.

This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is March 28, 2011.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

2. INVESTMENTS

Investments consist of cash, cash equivalents and certificates of deposit and are reported at contract value which approximates fair value. Investments balances as of December 31, 2010 and 2009 were \$8,083,121 and \$13,061,943, respectively.

3. ASSETS WHOSE USE IS LIMITED

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. The Hospital designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investments accounts are left to accumulate as an addition to the funds. The Hospital maintains funds which are held by trustee for debt service and capital improvements.

The following represents assets whose use is limited as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets whose use is limited		
Cash and cash equivalents	\$ 9,528,742	\$ 21,156,586
Investments	81,959,796	80,665,380
Accrued interest receivable	14,849	17,306
	<u>\$ 91,503,387</u>	<u>\$ 101,839,272</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.

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

As of December 31, 2010 and 2009, 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, 2010				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 17,611,863	\$ 17,611,863	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,077,593	712,549	365,044	-0-	-0-
Mutual funds - fixed income	59,841,489	59,841,489	-0-	-0-	-0-
Mutual funds - equities	16,055,563	16,055,563	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 99,586,508</u>	<u>\$ 94,221,464</u>	<u>\$ 365,044</u>	<u>\$ -0-</u>	<u>\$ 5,000,000</u>

	December 31, 2009				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 34,218,529	\$ 34,218,529	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,024,943	574,335	450,608	-0-	-0-
Mutual funds - fixed income	60,808,514	60,808,514	-0-	-0-	-0-
Mutual funds - equities	13,849,229	13,849,229	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 114,901,215</u>	<u>\$ 109,450,607</u>	<u>\$ 450,608</u>	<u>\$ -0-</u>	<u>\$ 5,000,000</u>

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

Concentration of credit risk - The Hospital 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Deposits and investments consist of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 4,881,383	\$ 6,233,667
Investments	99,586,508	114,901,215
	<u>\$ 104,467,891</u>	<u>\$ 121,134,882</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 4,881,383	\$ 6,233,667
Investments	8,083,121	13,061,943
Board designated funded depreciation investments	82,082,003	68,251,589
Held by trustee	9,088,535	33,228,357
Other board designated investments	332,849	359,326
	<u>\$ 104,467,891</u>	<u>\$ 121,134,882</u>

5. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value 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).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 are as follows:

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash equivalents	8,083,121			
Total investments	<u>\$ 8,083,121</u>			
Assets whose use is limited				
Mutual funds - fixed income	\$ 59,841,489	\$ 59,841,489	\$ -0-	\$ -0-
Mutual funds - equities	16,055,563	16,055,563	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	<u>80,897,052</u>	<u>\$ 75,897,052</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	9,528,742			
Certificates of deposit	1,077,593			
Total assets whose use is limited	<u>\$ 91,503,387</u>			
	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets				
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	13,061,943			
Total investments	<u>\$ 13,061,943</u>			
Assets whose use is limited				
Mutual funds - fixed income	\$ 60,808,514	\$ 60,808,514	\$ -0-	\$ -0-
Mutual funds - equities	13,849,229	13,849,229	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	<u>79,657,743</u>	<u>\$ 74,657,743</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash equivalents	21,156,586			
Certificates of deposit	1,024,943			
Total assets whose use is limited	<u>\$ 101,839,272</u>			

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

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short term maturity.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Long-term debt. Fair value of the Hospital's fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2010, the carrying value of the fixed rate long-term debt was \$124,575,000 with a fair value of approximately \$129,441,000.

6. CAPITAL ASSETS

Progressions for capital assets for 2010 and 2009 follow:

	December 31, 2009	Additions	Disposals	Transfers	December 31, 2010
Land	\$ 18,509,748	\$ 221,650	\$ -0-	\$ -0-	\$ 18,731,398
Land improvements	6,118,030	25,000	-0-	-0-	6,143,030
Buildings and fixed equipment	156,967,529	787,465	-0-	60,126,960	217,881,954
Major movable equipment	63,564,066	7,291,124	-0-	-0-	70,855,190
Construction in progress	48,698,345	23,077,544	-0-	(60,126,960)	11,648,929
Total capital assets	293,857,718	31,402,783	-0-	-0-	325,260,501
Less accumulated depreciation					
Land improvements	(2,603,263)	(289,989)	-0-	-0-	(2,893,252)
Buildings and fixed equipment	(56,060,942)	(6,634,724)	-0-	-0-	(62,695,666)
Major movable equipment	(45,090,801)	(5,628,298)	-0-	-0-	(50,719,099)
Total accumulated depreciation	(103,755,006)	(12,553,011)	-0-	-0-	(116,308,017)
Capital assets, net	\$ 190,102,712	\$ 18,849,772	\$ -0-	\$ -0-	\$ 208,952,484

	December 31, 2008	Additions	Disposals	Transfers	December 31, 2009
Land	\$ 17,828,766	\$ 680,982	\$ -0-	\$ -0-	\$ 18,509,748
Land improvements	6,089,177	28,853	-0-	-0-	6,118,030
Buildings and fixed equipment	154,544,517	1,570,990	-0-	852,022	156,967,529
Major movable equipment	60,945,080	2,737,273	(118,287)	-0-	63,564,066
Construction in progress	16,582,427	32,967,940	-0-	(852,022)	48,698,345
Total capital assets	255,989,967	37,986,038	(118,287)	-0-	293,857,718
Less accumulated depreciation					
Land improvements	(2,314,688)	(300,900)	12,325	-0-	(2,603,263)
Buildings and fixed equipment	(50,476,362)	(5,610,746)	26,166	-0-	(56,060,942)
Major movable equipment	(38,859,928)	(6,310,669)	79,796	-0-	(45,090,801)
Total accumulated depreciation	(91,650,978)	(12,222,315)	118,287	-0-	(103,755,006)
Capital assets, net	\$ 164,338,989	\$ 25,763,723	\$ -0-	\$ -0-	\$ 190,102,712

Construction commitments remaining as of December 31, 2010 were approximately \$4,771,000.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

7. LONG-TERM DEBT

The Hospital issued Indiana Bond Bank Special Program Refunding Bonds, Series 2007A dated May 24, 2007 in the amount of \$44,915,000. The proceeds from the Series 2007A bonds were used to retire a significant portion of the Indiana Bond Bank Special Hospital Program Bonds Series 2002D bonds. The defeasance of the Series 2002D bonds resulted in a loss of approximately \$2,600,000 which is amortized over the life of the bonds through 2030.

The Series 2007A bonds mature serially on an annual basis starting in April 2013 through April 2030 at interest rates ranging from 5.00% to 5.25%. Interest is due semi-annually on April 1 and October 1. Net revenues and certain assets held by the trustee to secure the tax-exempt revenue bonds.

The remaining Series 2002D bonds mature serially on an annual basis through April 2012 at interest rates ranging from 4.00% to 5.00%. Interest is due semi-annually on April 1 and October 1. Net revenues and certain assets held by the trustee secure the tax-exempt revenue bonds.

In 2009, the Hospital issued Indiana Bond Bank Special Program Bonds, Series 2009A dated March 12, 2009 in the amount of \$75,000,000. The Series 2009A bonds mature serially on a semi-annual basis (February 1 and August 1) through February 2029 at interest rates ranging from 3% to 5.5%. Net revenues and certain assets held by the trustee secure the tax-exempt revenue bonds.

The bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2010 and 2009, the Hospital believed it was in compliance with the debt coverage ratios.

Also in 2009, the Hospital issued Indiana Taxable Economic Development Revenue Bonds, Series 2009 in the amount of \$5,000,000. The bonds bear interest at 5% through February 2030 with the first principal payment due in February 2019. The bonds are secured by real property. The Hospital is also the sole bond holder of the Indiana Taxable Economic Development Revenue Bonds, Series 2009.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Progressions for long-term debt for 2010 and 2009 include the following:

	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
Indiana Bond Bank Special Hospital Program Bonds Series 2002D	\$ 4,430,000	\$ -0-	\$ (1,405,000)	\$ 3,025,000	\$ 1,475,000
Indiana Bond Bank Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
Indiana Bond Bank Special Hospital Program Bonds Series 2009A	74,075,000	-0-	(2,440,000)	71,635,000	2,520,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>128,420,000</u>	<u>\$ -0-</u>	<u>\$ (3,845,000)</u>	124,575,000	<u>\$ 3,995,000</u>
Unamortized loss on bond defeasance	(2,384,131)			(2,266,396)	
Unamortized bond premium	<u>4,796,240</u>			<u>4,547,921</u>	
	<u>\$ 130,832,109</u>			<u>\$ 126,856,525</u>	
	December 31, 2008	Additional Borrowings	Payments	December 31, 2009	Current Portion
Indiana Bond Bank Special Hospital Program Bonds Series 2002D	\$ 5,780,000	\$ -0-	\$ (1,350,000)	\$ 4,430,000	\$ 1,405,000
Indiana Bond Bank Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
Indiana Bond Bank Special Hospital Program Bonds Series 2009A	-0-	75,000,000	(925,000)	74,075,000	2,440,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	-0-	5,000,000	-0-	5,000,000	-0-
	<u>50,695,000</u>	<u>\$ 80,000,000</u>	<u>\$ (2,275,000)</u>	128,420,000	<u>\$ 3,845,000</u>
Unamortized loss on bond defeasance	(2,501,866)			(2,384,131)	
Unamortized bond premium	<u>4,694,830</u>			<u>4,796,240</u>	
	<u>\$ 52,887,964</u>			<u>\$ 130,832,109</u>	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,995,000	\$ 6,246,175	\$ 10,241,175
2012	4,145,000	6,088,000	10,233,000
2013	4,285,000	5,898,275	10,183,275
2014	4,495,000	5,680,525	10,175,525
2015	4,720,000	5,452,025	10,172,025
2016-2020	27,840,000	23,485,294	51,325,294
2021-2025	36,740,000	15,550,112	52,290,112
2026-2030	38,355,000	4,701,606	43,056,606
	<u>\$ 124,575,000</u>	<u>\$ 73,102,012</u>	<u>\$ 197,677,012</u>

8. NET PATIENT SERVICE REVENUE

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

Medicare

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Medicaid

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$3,646,000 and \$3,756,000 during 2010 and 2009, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

Patient service revenue for 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Inpatient routine services	\$ 19,206,949	\$ 17,383,388
Inpatient ancillary services	77,602,492	72,261,958
Outpatient ancillary services	<u>257,488,205</u>	<u>240,347,423</u>
Gross patient service revenue	354,297,646	329,992,769
Contractual allowance	167,596,201	149,855,935
Charity care	4,645,000	4,398,000
Bad debts	<u>16,072,736</u>	<u>14,653,786</u>
Deductions from revenue	<u>188,313,937</u>	<u>168,907,721</u>
Net patient service revenue	<u>\$ 165,983,709</u>	<u>\$ 161,085,048</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

9. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. The Hospital is required to contribute at an actuarially determined rate. The current rate is 1% of annual covered payroll. The Hospital expects to contribute approximately \$3,000,000 to the Plan in 2011.

The following is a summary of the Plan as of December 31, 2010 (based on actuarial valuation date of January 1, 2010) and December 31, 2009 (based on actuarial valuation date of January 1, 2009):

	2010	2009
Annual required contribution	\$ 1,737,544	\$ 2,235,559
Interest on net pension obligation	(29,779)	28,860
Adjustment to annual required contribution	47,750	(46,275)
Annual pension cost	1,755,515	2,218,144
Contributions made	3,165,000	3,000,000
Change in net pension obligation	(1,409,485)	(781,856)
Net pension obligation, beginning of year	(397,059)	384,797
Net pension benefit, end of year	\$ (1,806,544)	\$ (397,059)
Actuarial valuation date	1/1/2010	
Actuarial cost method	Aggregate actuarial cost	
Amortization method	Average remaining service	
Asset valuation method	Market	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

	January 1, 2010	January 1, 2009
Actuarial value of assets	\$ 43,170,509	\$ 34,733,278
Accrued actuarial liability	42,489,692	38,746,369
Unfunded actuarial accrued liability	\$ 680,817	\$ (4,013,091)
Funded ratio of assets to accrued liability	101.6%	89.6%
Covered payroll	\$ 72,800,013	\$ 67,826,899
Ratio of unfunded liability to covered payroll	-0.9%	5.9%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	7.5%
Projected salary increases - average	5.0%	5.0%

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
December 31, 2008	\$ 2,164,113	105.6%	\$ 384,797
December 31, 2009	\$ 2,218,144	135.2%	\$ (397,059)
December 31, 2010	\$ 1,755,515	180.3%	\$ (1,806,544)

10. TAX DEFERRED ANNUITY PLAN

Plan Description

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

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may elect to contribute to the plan. The Hospital will contribute to each plan members' elective deferrals a matching amount up to a maximum percentage of each participant's annual compensation, to be determined at the discretion of the Board of Trustees.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital's contributions to the plan for 2010 and 2009 were \$775,000 and \$10,000, respectively.

11. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2014. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2010 and 2009 was \$995,394 and \$781,983, respectively. Minimum future payments on leases for the years following December 31, 2010 are as follows:

Year Ending December 31,	
2011	\$ 318,000
2012	268,000
2013	200,000
2014	119,000
2015	59,000
	<u>\$ 964,000</u>

12. CONCENTRATION OF CREDIT RISK

Hendricks Regional Health is located in Danville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2010 and 2009 was as follows:

	Receivables		Revenues	
	2010	2009	2010	2009
Medicare	26%	25%	38%	37%
Medicaid	5%	4%	6%	6%
Blue Cross	19%	18%	30%	29%
Commercial	17%	18%	19%	22%
Self-Pay and other	33%	35%	7%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

13. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, HAMCO and Foundation. All significant related party transactions have been eliminated from the consolidated financial statements. The following is a summary of the financial position of HAMCO as of and for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 822,147	\$ 1,120,242
Other assets	<u>2,334,187</u>	<u>1,888,369</u>
Total assets	<u>\$ 3,156,334</u>	<u>\$ 3,008,611</u>
Total liabilities	\$ 174,935	\$ 202,049
Net assets	<u>2,981,399</u>	<u>2,806,562</u>
Total liabilities and net assets	<u>\$ 3,156,334</u>	<u>\$ 3,008,611</u>
Revenue	\$ 3,736,105	\$ 3,354,269
Expenses	<u>2,391,268</u>	<u>2,152,702</u>
Excess revenue over expenses	<u>\$ 1,344,837</u>	<u>\$ 1,201,567</u>

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Other assets	\$ 485,306	\$ 291,249
Total assets	<u>\$ 485,306</u>	<u>\$ 291,249</u>
Current liabilities	\$ 20,140	\$ 37,419
Net assets	<u>465,166</u>	<u>253,830</u>
Total liabilities and net assets	<u>\$ 485,306</u>	<u>\$ 291,249</u>
Revenue	\$ 424,192	\$ 147,599
Expenses	<u>212,856</u>	<u>103,651</u>
Change in net assets	211,336	43,948
Net assets, beginning of year	<u>253,830</u>	<u>209,882</u>
Net assets, end of year	<u>\$ 465,166</u>	<u>\$ 253,830</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

14. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$125,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was \$11,171,818 and \$11,064,853 for 2010 and 2009, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported as reported in accrued expenses and other current liabilities on the consolidated balance sheets. Changes in balance of health claim liabilities during the past two years are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of year	\$ 2,055,943	\$ 1,669,688
Incurred claims and changes in estimates	11,171,818	11,064,853
Claim payments	<u>(11,217,495)</u>	<u>(10,678,598)</u>
Unpaid claims, end of year	<u>\$ 2,010,266</u>	<u>\$ 2,055,943</u>

15. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically one to three years. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms ranging from one to three years. These amounts are recorded in other assets and liabilities on the consolidated balance sheets and approximated \$200,000 as of December 31, 2010 and 2009.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

For the fair value of new or modified guarantees entered into during this period with an offsetting asset recorded in other assets on the accompanying balance sheet, which will be amortized over the commitment period. The Hospital recognized an asset and corresponding liability of \$201,648 as of December 31, 2010 and 2009, respectively.

16. UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," issued March 2009, is effective for periods beginning after June 15, 2010. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. The Hospital is currently evaluating the effects the new statement will have on its consolidated financial statements.

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 3,657,120	\$ 444,225	\$ 780,038	\$ -0-	\$ 4,881,383
Investments	7,280,629	-0-	802,492	-0-	8,083,121
Patient accounts receivable, net	22,452,782	41,081	-0-	-0-	22,493,863
Inventories	479,709	-0-	338,074	-0-	817,783
Other current assets	823,697	-0-	393,624	(386,859)	830,462
Current portion of assets whose use is limited	3,995,000	-0-	-0-	-0-	3,995,000
Total current assets	38,688,937	485,306	2,314,228	(386,859)	41,101,612
Assets whose use is limited					
Board designated funded depreciation investments	82,082,003	-0-	-0-	-0-	82,082,003
Held by trustee	9,088,535	-0-	-0-	-0-	9,088,535
Other board designated investments	332,849	-0-	-0-	-0-	332,849
Total assets whose use is limited	91,503,387	-0-	-0-	-0-	91,503,387
Less current portion	3,995,000	-0-	-0-	-0-	3,995,000
Noncurrent assets whose use is limited	87,508,387	-0-	-0-	-0-	87,508,387
Capital assets					
Land	18,731,398	-0-	-0-	-0-	18,731,398
Depreciable capital assets	305,254,286	-0-	2,427,711	(1,152,894)	306,529,103
	323,985,684	-0-	2,427,711	(1,152,894)	325,260,501
Less accumulated depreciation	115,624,769	-0-	1,605,564	(922,316)	116,308,017
Capital assets, net	208,360,915	-0-	822,147	(230,578)	208,952,484
Other assets	3,543,047	-0-	19,959	(1,563,310)	1,999,696
Total assets	\$ 338,101,286	\$ 485,306	\$ 3,156,334	\$ (2,180,747)	\$ 339,562,179

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 3,995,000	\$ -0-	\$ -0-	\$ -0-	\$ 3,995,000
Accounts payable	3,663,096	20,140	168,159	(386,859)	3,464,536
Accrued salaries and related liabilities	7,387,901	-0-	587	-0-	7,388,488
Accrued expenses and other current liabilities	1,463,912	-0-	6,189	-0-	1,470,101
Accrued interest	2,105,433	-0-	-0-	-0-	2,105,433
Estimated third-party settlements	682,095	-0-	-0-	-0-	682,095
Total current liabilities	19,297,437	20,140	174,935	(386,859)	19,105,653
Long-term liabilities					
Long-term debt, net of current portion	122,861,525	-0-	-0-	-0-	122,861,525
Total liabilities	142,158,962	20,140	174,935	(386,859)	141,967,178
Net assets					
Invested in capital assets, net of related debt	81,504,390	-0-	822,147	(230,578)	82,095,959
Held by trustee	9,088,535	-0-	-0-	-0-	9,088,535
Unrestricted	105,349,399	465,166	2,159,252	(2,981,399)	104,992,418
Net assets - controlling interest	195,942,324	465,166	2,981,399	(3,211,977)	196,176,912
Non-controlling interest	-0-	-0-	-0-	1,418,089	1,418,089
Total net assets	195,942,324	465,166	2,981,399	(1,793,888)	197,595,001
Total liabilities and net assets	<u>\$ 338,101,286</u>	<u>\$ 485,306</u>	<u>\$ 3,156,334</u>	<u>\$ (2,180,747)</u>	<u>\$ 339,562,179</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 165,983,709	\$ -0-	\$ 3,720,651	\$ (3,720,651)	\$ 165,983,709
Other revenue	2,549,663	-0-	-0-	-0-	2,549,663
Total operating revenue	168,533,372	-0-	3,720,651	(3,720,651)	168,533,372
Operating expenses					
Salaries and wages	73,876,939	-0-	79,242	-0-	73,956,181
Employee benefits	19,816,840	-0-	20,356	-0-	19,837,196
Professional medical fees	1,240,762	-0-	-0-	-0-	1,240,762
Other professional fees	12,898,101	-0-	-0-	(3,720,651)	9,177,450
Medical and surgical supplies	11,681,862	-0-	1,402,680	-0-	13,084,542
Drugs and intravenous solutions	6,552,543	-0-	122,024	-0-	6,674,567
Food	915,603	-0-	-0-	-0-	915,603
Purchased services	11,476,461	-0-	184,127	-0-	11,660,588
Equipment rental	989,100	-0-	6,294	-0-	995,394
Telephone and utilities	3,533,346	-0-	-0-	-0-	3,533,346
Depreciation and amortization	12,338,020	1,044	444,526	(230,579)	12,553,011
Insurance	1,648,358	-0-	8,430	-0-	1,656,788
Other supplies and expenses	3,929,943	211,812	123,589	-0-	4,265,344
Total operating expenses	160,897,878	212,856	2,391,268	(3,951,230)	159,550,772
Operating income (loss)	7,635,494	(212,856)	1,329,383	230,579	8,982,600
Nonoperating income (expense)					
Investment income (loss) and other	7,208,758	424,192	16,435	(468,015)	7,181,370
Interest expense	(4,294,987)	-0-	(981)	-0-	(4,295,968)
Total non operating income (expense), net	2,913,771	424,192	15,454	(468,015)	2,885,402
Consolidated change in net assets before special item	10,549,265	211,336	1,344,837	(237,436)	11,868,002
Special item					
Contribution	(3,124,909)	-0-	-0-	-0-	(3,124,909)
Consolidated change in net assets	7,424,356	211,336	1,344,837	(237,436)	8,743,093
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(846,822)	(846,822)
Change in net assets attributable to controlling interests	<u>\$ 7,424,356</u>	<u>\$ 211,336</u>	<u>\$ 1,344,837</u>	<u>\$ (1,084,258)</u>	<u>\$ 7,896,271</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 4,862,731	\$ 258,999	\$ 1,111,937	\$ -0-	\$ 6,233,667
Investments	13,061,943	-0-	-0-	-0-	13,061,943
Patient accounts receivable, net	21,971,023	32,000	-0-	-0-	22,003,023
Inventories	482,280	-0-	374,817	-0-	857,097
Other current assets	662,349	250	361,656	(357,206)	667,049
Current portion of assets whose use is limited	3,845,000	-0-	-0-	-0-	3,845,000
Total current assets	<u>44,885,326</u>	<u>291,249</u>	<u>1,848,410</u>	<u>(357,206)</u>	<u>46,667,779</u>
Assets whose use is limited					
Board designated funded depreciation investments	68,251,589	-0-	-0-	-0-	68,251,589
Held by trustee for debt service	-0-	-0-	-0-	-0-	-0-
Hed by Trustee	33,228,357	-0-	-0-	-0-	33,228,357
Other board designated investments	359,326	-0-	-0-	-0-	359,326
Total assets whose use is limited	<u>101,839,272</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>101,839,272</u>
Less current portion	3,845,000	-0-	-0-	-0-	3,845,000
Noncurrent assets whose use is limited	<u>97,994,272</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>97,994,272</u>
Capital assets					
Land	18,509,748	-0-	-0-	-0-	18,509,748
Depreciable capital assets	274,327,799	-0-	2,173,065	(1,152,894)	275,347,970
	<u>292,837,547</u>	<u>-0-</u>	<u>2,173,065</u>	<u>(1,152,894)</u>	<u>293,857,718</u>
Less accumulated depreciation	103,393,920	-0-	1,052,823	(691,737)	103,755,006
Capital assets, net	<u>189,443,627</u>	<u>-0-</u>	<u>1,120,242</u>	<u>(461,157)</u>	<u>190,102,712</u>
Other assets	<u>3,955,403</u>	<u>-0-</u>	<u>39,959</u>	<u>(1,824,626)</u>	<u>2,170,736</u>
Total assets	<u>\$ 336,278,628</u>	<u>\$ 291,249</u>	<u>\$ 3,008,611</u>	<u>\$ (2,642,989)</u>	<u>\$ 336,935,499</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 3,845,000	\$ -0-	\$ -0-	\$ -0-	\$ 3,845,000
Accounts payable	2,769,084	37,419	198,999	(357,206)	2,648,296
Accrued salaries and related liabilities	6,926,000	-0-	3,050	-0-	6,929,050
Accrued expenses and other current liabilities	2,792,469	-0-	-0-	-0-	2,792,469
Accrued interest	2,153,496	-0-	-0-	-0-	2,153,496
Estimated third-party settlements	2,287,502	-0-	-0-	-0-	2,287,502
Total current liabilities	<u>20,773,551</u>	<u>37,419</u>	<u>202,049</u>	<u>(357,206)</u>	<u>20,655,813</u>
Long-term liabilities					
Long-term debt	126,987,109	-0-	-0-	-0-	126,987,109
Total liabilities	<u>147,760,660</u>	<u>37,419</u>	<u>202,049</u>	<u>(357,206)</u>	<u>147,642,922</u>
Net assets					
Invested in capital assets, net of related debt	58,611,518	-0-	1,120,242	(461,157)	59,270,603
Held by trustee	33,228,357	-0-	-0-	-0-	33,228,357
Unrestricted	96,678,093	253,830	1,686,320	(2,806,562)	95,811,681
Net assets - controlling interest	188,517,968	253,830	2,806,562	(3,267,719)	188,310,641
Non-controlling interest	-0-	-0-	-0-	981,936	981,936
Total net assets	<u>188,517,968</u>	<u>253,830</u>	<u>2,806,562</u>	<u>(2,285,783)</u>	<u>189,292,577</u>
Total liabilities and net assets	<u>\$ 336,278,628</u>	<u>\$ 291,249</u>	<u>\$ 3,008,611</u>	<u>\$ (2,642,989)</u>	<u>\$ 336,935,499</u>

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2009

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 161,085,048	\$ -0-	\$ 3,347,889	\$ (3,347,889)	\$ 161,085,048
Other revenue	2,284,170	-0-	-0-	-0-	2,284,170
Total operating revenue	163,369,218	-0-	3,347,889	(3,347,889)	163,369,218
Operating expenses					
Salaries and wages	70,692,380	-0-	73,437	-0-	70,765,817
Employee benefits	19,018,591	-0-	12,030	-0-	19,030,621
Professional medical fees	1,172,955	-0-	-0-	-0-	1,172,955
Other professional fees	12,504,278	-0-	-0-	(3,347,889)	9,156,389
Medical and surgical supplies	10,721,586	-0-	1,252,809	-0-	11,974,395
Drugs and intravenous solutions	5,210,730	-0-	124,876	-0-	5,335,606
Food	875,420	-0-	-0-	-0-	875,420
Purchased services	10,588,488	-0-	162,066	-0-	10,750,554
Equipment rental	776,619	-0-	5,364	-0-	781,983
Telephone and utilities	3,264,809	-0-	-0-	-0-	3,264,809
Depreciation and amortization	12,037,715	-0-	415,179	(230,579)	12,222,315
Insurance	1,409,879	-0-	8,430	-0-	1,418,309
Other supplies and expenses	3,560,848	103,651	98,511	-0-	3,763,010
Total operating expenses	151,834,298	103,651	2,152,702	(3,578,468)	150,512,183
Operating income (loss)	11,534,920	(103,651)	1,195,187	230,579	12,857,035
Nonoperating income (expense)					
Investment income (loss) and other	10,543,498	147,599	7,020	(658,950)	10,039,167
Interest expense	(2,740,307)	-0-	(640)	-0-	(2,740,947)
Total nonoperating income (expense), net	7,803,191	147,599	6,380	(658,950)	7,298,220
Consolidated change in net assets	19,338,111	43,948	1,201,567	(428,371)	20,155,255
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(542,617)	(542,617)
Change in net assets attributable to controlling interests	<u>\$ 19,338,111</u>	<u>\$ 43,948</u>	<u>\$ 1,201,567</u>	<u>\$ (970,988)</u>	<u>\$ 19,612,638</u>

See report of independent auditors on pages 1 and 2.