



CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012 AND 2011



HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hendricks Regional Health (the Hospital) which comprise the consolidated balance sheets as of December 31, 2012 and 2011 and the related consolidated statements of revenues and expenses, 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2012 and 2011, and its results of operations, changes in net position and 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 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 audits 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary 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 position 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 information has been subjected to the auditing procedures applied in the audits 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.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, under separate cover, dated June 25, 2013 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
June 25, 2013

REQUIRED SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

This section of Hendricks Regional Health's (the Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2012. 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, LLC. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net position increased approximately \$27,988,000 or 13.4% in 2012.
- The Hospital reported operating income of approximately \$26,469,000 for 2012, representing an increase of approximately \$8,944,000 in comparison to the year 2011 results.
- The Hospital continued its expansion of facilities and equipment in 2012 by adding approximately \$9,244,000 in gross property and equipment. The Hospital disposed of capital assets with a net book value of approximately \$21,000 pursuant to a physical inventory. These items combined with depreciation expense of approximately \$13,290,000 resulted in net capital assets decreasing approximately \$4,067,000 from the prior year.
- The Hospital's assets whose use is limited increased approximately \$23,017,000 as a result of solid operating income and investment returns.
- During 2012, the Hospital entered into agreements to lease the operations of multiple long term care facilities. As a result of the lease agreements, the Hospital recognized approximately \$67,783,000 of net patient service revenue related to long-term care.

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 Position; 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).

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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 Position summarizes the changes in net position 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.

The Consolidated 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 position and changes in it. 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 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: Consolidated Balance Sheets

The significant change in the Hospital's assets was in current assets which increased approximately \$30,461,000 in 2012 compared to 2011 as a result of additional patient accounts receivable of approximately \$12,700,000 related to long-term care services. Assets whose use is limited increased approximately \$23,017,000 in 2012 compared to 2011.

The Hospital has a project with the YMCA of Greater Indianapolis for a medical office building and wellness center in Avon, Indiana. The total cost of the project as of December 31, 2012 was approximately \$16,523,000. During 2012 and 2011, the Hospital contributed assets to the YMCA of approximately \$221,000 and \$1,833,000, respectively, in support of the project.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Current liabilities increased by approximately \$25,746,000 mainly related to long-term care accounts payable and accrued expenses of approximately \$19,719,000.

Net position increased by approximately \$27,988,000 from 2011 through 2012. The increase relates to a solid operating income driven from operations and investment return.

	2012	2011	Change 2012 - 2011	2010
Assets				
Current assets	\$ 73,805,598	\$ 43,344,868	\$ 30,460,730	\$ 41,101,612
Capital assets, net	204,298,812	208,365,362	(4,066,550)	208,952,484
Assets whose use is limited	117,142,916	94,125,780	23,017,136	87,508,387
Other assets	2,332,158	2,416,484	(84,326)	1,999,696
Total assets	<u>\$ 397,579,484</u>	<u>\$ 348,252,494</u>	<u>\$ 49,326,990</u>	<u>\$ 339,562,179</u>
Liabilities				
Current liabilities	\$ 46,914,511	\$ 21,168,298	\$ 25,746,213	\$ 19,105,653
Long-term debt	114,179,185	118,585,941	(4,406,756)	122,861,525
Total liabilities	161,093,696	139,754,239	21,339,457	141,967,178
Net position				
Invested in capital assets, net of related debt	85,834,627	85,634,421	200,206	82,095,959
Restricted for debt service	9,099,125	8,583,943	515,182	9,088,535
Unrestricted	140,208,065	112,998,080	27,209,985	104,992,418
Net position - controlling interest	235,141,817	207,216,444	27,925,373	196,176,912
Non-controlling interest	1,343,971	1,281,811	62,160	1,418,089
Total net position	<u>236,485,788</u>	<u>208,498,255</u>	<u>27,987,533</u>	<u>197,595,001</u>
Total liabilities and net position	<u>\$ 397,579,484</u>	<u>\$ 348,252,494</u>	<u>\$ 49,326,990</u>	<u>\$ 339,562,179</u>

Table 2: Consolidated Statements of Revenues and Expenses

The Hospital's performance in 2012 was solid with a return on equity of 12.0% compared to prior year's 5.6%.

Total operating revenue increased approximately \$93,430,000 as utilization in inpatient and outpatient services increased. Net patient service revenue from long-term care services was approximately \$67,783,000 in 2012.

Expenses increased by approximately \$84,486,000 between 2011 and 2012. Salaries, wages and benefits increased approximately \$7,603,000. Long-term care services contributed to the majority of the increases related to purchased services

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

of \$39,971,000, facility and equipment leases of \$6,875,000 and other supplies and expenses of \$8,974,000. The HAF Program which started in 2012 increased expense by approximately \$8,513,000 during 2012.

Nonoperating income (expense) increased by approximately \$6,413,000 due to investment income of approximately \$8,079,000 in 2012 compared to \$1,836,000 in 2011 and interest expense decreasing approximately \$171,000 from 2011.

The Hospital's acute care discharges for 2012 increased 1.9% to 5,668 from 5,563 in 2011; the Hospital's acute care adjusted patient days increased 5.9% to 78,812 in 2012 compared to 74,395 in 2011.

During 2012, the Hospital's net patient service revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$1,897,000 compared to payments of \$3,391,000 received in 2011. The Hospital Assessment Fee (HAF) Program was initiated in 2012 which increased Medicaid reimbursement by approximately \$10,000,000 offset by an associated HAF Program expense of approximately \$8,513,000.

	2012	2011	Change 2012 - 2011	2010
Operating revenue				
Net patient service revenue	\$ 273,950,431	\$ 181,876,427	\$ 92,074,004	\$ 165,983,709
Other operating revenue	5,575,749	4,219,722	1,356,027	4,263,663
Total operating revenue	<u>279,526,180</u>	<u>186,096,149</u>	<u>93,430,031</u>	<u>170,247,372</u>
Operating expenses				
Salaries and benefits	104,707,582	97,104,498	7,603,084	93,793,377
Medical supplies and drugs	24,517,219	20,750,003	3,767,216	19,759,109
Depreciation and amortization	13,290,399	13,012,018	278,381	12,553,011
Other operating expenses	110,542,329	37,704,521	72,837,808	35,159,275
Total operating expenses	<u>253,057,529</u>	<u>168,571,040</u>	<u>84,486,489</u>	<u>161,264,772</u>
Operating income	26,468,651	17,525,109	8,943,542	8,982,600
Nonoperating income (expense), net	<u>2,303,063</u>	<u>(4,110,406)</u>	<u>6,413,469</u>	<u>2,885,402</u>
Consolidated change in net position before special item and other	28,771,714	13,414,703	15,357,011	11,868,002
Special item				
Contribution	(221,096)	(1,833,100)	1,612,004	(3,124,909)
Other				
Contributions from non-controlling interest	59,584	18,940	40,644	108,640
Dividends to non-controlling interest	(622,669)	(697,289)	74,620	(549,309)
Consolidated change in net position	<u>\$ 27,987,533</u>	<u>\$ 10,903,254</u>	<u>\$ 17,084,279</u>	<u>\$ 8,302,424</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Consolidated Statements of Changes in Net Position

The Hospital's net position increased approximately \$27,988,000 in 2012 and \$10,903,000 in 2011 including contributions and distributions for non-controlling interest. The following is a net position progression:

	2012	2011	2010
Net position, beginning of year	\$ 208,498,255	\$ 197,595,001	\$ 189,292,577
Consolidated change in net position	27,987,533	10,903,254	8,302,424
Net position, end of year	<u>\$ 236,485,788</u>	<u>\$ 208,498,255</u>	<u>\$ 197,595,001</u>

Consolidated 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?"

Total cash and cash equivalents decreased approximately \$848,000 in 2012. Operating activities generated cash and cash equivalents of \$33,032,000 during 2012 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by \$19,317,000 during 2012 mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by \$14,563,000 due to investment activity and the purchase of investments with available cash equivalents.

	2012	2011	Change 2012 - 2011	2010
Cash flow from activities				
Operating	\$ 33,032,338	\$ 31,790,178	\$ 1,242,160	\$ 18,691,164
Capital and related financing	(19,317,251)	(24,928,164)	5,610,913	(42,378,941)
Investing	(14,563,330)	(849,889)	(13,713,441)	5,739,569
Change in cash and cash equivalents	<u>\$ (848,243)</u>	<u>\$ 6,012,125</u>	<u>\$ (6,860,368)</u>	<u>\$ (17,948,208)</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

Sources of Revenue

During 2012, 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 46% of the Hospital's gross revenues in 2012 but only 27% of the Hospital's net patient service revenues. Following is a table of major sources of gross patient revenues for 2012:

<u>Payor</u>	<u>% of Gross Revenues</u>
Medicare	39%
Anthem/Blue Cross	27%
Other	13%
Self Pay	7%
Medicaid	6%
United Health Care	8%
Total	<u>100%</u>

The Hospital's patient mix between inpatient and outpatient services is different than other hospital averages. The Hospital's outpatient services represented 72% of the Hospital's gross patient revenue in 2012. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 52% for 2012.

Capital Assets

During 2012, the Hospital invested approximately \$7,517,000 in capital assets net of asset disposals. The change in capital assets is outlined in the following table:

	<u>2012</u>	<u>2011</u>	<u>Change 2012 - 2011</u>	<u>2010</u>
Land and improvements	\$ 22,313,268	\$ 22,848,924	\$ (535,656)	\$ 24,874,428
Buildings and fixed equipment	238,028,720	233,768,989	4,259,731	217,881,954
Major moveable equipment	72,373,108	68,112,071	4,261,037	70,855,190
Construction in progress	2,169,916	2,638,245	(468,329)	11,648,929
Total capital assets	334,885,012	327,368,229	7,516,783	325,260,501
Less accumulated depreciation	130,586,200	119,002,867	11,583,333	116,308,017
Capital assets - net	<u>\$ 204,298,812</u>	<u>\$ 208,365,362</u>	<u>\$ (4,066,550)</u>	<u>\$ 208,952,484</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2012 AND 2011

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

Total long-term debt decreased from \$118,586,000 to \$114,179,000 in 2012 due to normal principal payments. 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.

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, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 8,517,841	\$ 7,722,229
Investments	5,437,304	7,042,788
Patient accounts receivable, less allowance for uncollectible accounts of \$15,483,000 in 2012 and \$10,502,000 in 2011	40,030,706	22,432,573
Inventories	1,215,118	847,537
Other current assets	14,319,629	1,154,741
Current portion of assets whose use is limited	4,285,000	4,145,000
Total current assets	<u>73,805,598</u>	<u>43,344,868</u>
Assets whose use is limited		
Board designated funded depreciation investments	111,917,761	89,309,708
Held by trustee for debt service	9,099,125	8,583,943
Other board designated investments	411,030	377,129
Total assets whose use is limited	<u>121,427,916</u>	<u>98,270,780</u>
Less current portion	4,285,000	4,145,000
Noncurrent assets whose use is limited	<u>117,142,916</u>	<u>94,125,780</u>
Capital assets		
Land	16,307,701	16,876,853
Depreciable capital assets	316,407,395	307,853,131
Construction in progress	2,169,916	2,638,245
	<u>334,885,012</u>	<u>327,368,229</u>
Less accumulated depreciation	130,586,200	119,002,867
Capital assets, net	<u>204,298,812</u>	<u>208,365,362</u>
Other assets	2,332,158	2,416,484
Total assets	<u>\$ 397,579,484</u>	<u>\$ 348,252,494</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
Current liabilities		
Current portion of long-term debt	\$ 4,285,000	\$ 4,145,000
Accounts payable	13,945,482	3,802,960
Accrued salaries and related liabilities	15,920,188	8,389,328
Accrued expenses and other current liabilities	9,751,313	1,760,265
Accrued interest	1,992,871	2,055,496
Estimated third-party settlements	1,019,657	1,015,249
Total current liabilities	<u>46,914,511</u>	<u>21,168,298</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>114,179,185</u>	<u>118,585,941</u>
Total liabilities	161,093,696	139,754,239
Net position		
Invested in capital assets, net of related debt	85,834,627	85,634,421
Restricted for debt service	9,099,125	8,583,943
Unrestricted	<u>140,208,065</u>	<u>112,998,080</u>
Net position - controlling interest	235,141,817	207,216,444
Non-controlling interest	<u>1,343,971</u>	<u>1,281,811</u>
Total net position	<u>236,485,788</u>	<u>208,498,255</u>
Total liabilities and net position	<u>\$ 397,579,484</u>	<u>\$ 348,252,494</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	\$ 273,950,431	\$ 181,876,427
Other operating revenue	5,575,749	4,219,722
Total operating revenue	279,526,180	186,096,149
Operating expenses		
Salaries and wages	81,235,980	75,177,482
Employee benefits	23,471,602	21,927,016
Professional medical fees	3,443,982	2,323,098
Other professional fees	14,648,641	11,384,170
Medical and surgical supplies	17,038,718	14,063,477
Drugs and intravenous solutions	7,478,501	6,686,526
Food	1,522,649	890,507
Purchased services	51,160,878	11,189,696
Equipment rental	3,401,502	2,929,025
HAF Program	8,513,418	-0-
Telephone and utilities	4,933,183	3,583,016
Depreciation and amortization	13,290,399	13,012,018
Insurance	2,754,558	1,526,376
Facility and equipment leases	6,875,543	-0-
Other supplies and expenses	13,287,975	3,878,633
Total operating expenses	253,057,529	168,571,040
Operating income	26,468,651	17,525,109
Nonoperating income (expense)		
Investment income	8,079,296	1,836,476
Interest expense	(5,776,233)	(5,946,882)
Total nonoperating income (expense), net	2,303,063	(4,110,406)
Consolidated change in net position before special item and other	28,771,714	13,414,703
Special item		
Contribution	(221,096)	(1,833,100)
Other		
Contributions from non-controlling interest	59,584	18,940
Dividends to non-controlling interest	(622,669)	(697,289)
Consolidated change in net position	\$ 27,987,533	\$ 10,903,254

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	Controlling Interest	Non-controlling Interest	Total
	<u> </u>	<u> </u>	<u> </u>
Net position balances			
December 31, 2010	\$ 196,176,912	\$ 1,418,089	\$ 197,595,001
Consolidated change in net position	<u>11,039,532</u>	<u>(136,278)</u>	<u>10,903,254</u>
December 31, 2011	207,216,444	1,281,811	208,498,255
Consolidated change in net position	<u>27,925,373</u>	<u>62,160</u>	<u>27,987,533</u>
December 31, 2012	<u>\$ 235,141,817</u>	<u>\$ 1,343,971</u>	<u>\$ 236,485,788</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating activities		
Cash received from patient services	\$ 256,356,706	\$ 182,270,871
Cash paid for salaries, wages and benefits	(97,176,722)	(96,126,391)
Cash paid to vendors and suppliers	(131,723,395)	(58,574,024)
Other receipts, net	5,575,749	4,219,722
Net cash flows from operating activities	33,032,338	31,790,178
Capital and related financing activities		
Acquisition and construction of capital assets	(8,569,313)	(15,035,052)
Contributions from non-controlling interest	59,584	18,940
Dividends to non-controlling interest	(622,669)	(697,289)
Loss of disposal of property and equipment	17,501	2,595,156
Proceeds from disposal of property and equipment	2,600	15,000
Contribution of property	(221,096)	(1,833,100)
Interest on long-term debt	(5,838,858)	(5,996,819)
Principal payments for long-term debt	(4,145,000)	(3,995,000)
Net cash flows from capital and related financing activities	(19,317,251)	(24,928,164)
Investing activities		
Investment income	8,079,296	1,836,476
Purchase of investments	(40,733,820)	(9,666,288)
Proceeds from sale of investments	18,091,194	6,979,923
Net cash flows from investing activities	(14,563,330)	(849,889)
Net change in cash and cash equivalents	(848,243)	6,012,125
Cash and cash equivalents		
Beginning of year	28,516,113	22,503,988
End of year	\$ 27,667,870	\$ 28,516,113
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 8,517,841	\$ 7,722,229
In investments	4,571,801	6,227,175
In board designated funds	14,578,228	14,566,709
Total cash and cash equivalents	\$ 27,667,870	\$ 28,516,113

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 26,468,651	\$ 17,525,109
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	13,290,399	13,012,018
Bad debts	21,429,984	17,052,042
Changes in operating assets and liabilities		
Patient accounts receivable	(39,028,117)	(16,990,752)
Inventories	(367,581)	(29,754)
Other current assets	(13,164,888)	(324,279)
Other assets	84,326	(416,788)
Accounts payable	8,793,248	338,424
Accrued salaries and related liabilities	7,530,860	1,000,840
Accrued expenses and other current liabilities	7,991,048	290,164
Estimated third-party settlements	4,408	333,154
Net cash flows from operating activities	\$ 33,032,338	\$ 31,790,178
 Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 5,838,858	\$ 5,996,819
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ 674,637	\$ -0-

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 16-22. The Hospital provides inpatient, outpatient, emergency care as well as long-term 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, 2012 and 2011, 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 in these consolidated financial statements 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 of operations and exists solely to provide services to the Hospital.

Long-Term Care Operations

Pursuant to the provision of long-term care, the Hospital owns the operations of approximately twenty 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

During 2012, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through August 2018. 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.

Basis of Consolidation

The accompanying consolidated financial statements of the Hospital 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 maintains controlling interest in voting rights. The Hospital also maintains substantial participation in the operations of HAMCO in addition to an economic interest in HAMCO's financial position.

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position, cash flows or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which primarily resulted in renaming net assets to net position within the consolidated financial statements. GASB No. 63 has been applied retroactively in the accompanying consolidated financial statements.

Cash and Cash Equivalents and Consolidated 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 of cash, cash equivalents, certificates of deposit which are reported at contract value which approximates fair value. Mutual funds are reported at fair value.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2008 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2009 through 2012 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2012 and 2011, the Hospital recognized \$-0- in the consolidated 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.

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports.

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in 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 agreement requirements. In addition, the financial statement effects of the income must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized approximately \$648,000 and \$-0-, respectively, in EHR incentive payments as income. 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 operating revenue in the consolidated statements of revenues and expenses. 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 program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

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>2012</u>	<u>2011</u>
Medical supplies and other	\$ 802,086	\$ 467,011
Pharmaceutical	413,032	380,526
	<u>\$ 1,215,118</u>	<u>\$ 847,537</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Other Current Assets

Other current assets consist of prepaid expenses, other reimbursement receivables related to long-term care services and various other current items. These assets are classified as current as they are expected to be utilized during 2013.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated 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, 2012 AND 2011

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 \$1,397,000 and \$1,295,000 for 2012 and 2011, respectively.

Net Position

Net position of the Hospital is classified in three components. 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. Restricted includes net position held by trustee for debt service requirements. Unrestricted includes remaining net position that does not meet the definition of invested in capital assets net of related debt. Net position related to non-controlling interest is reported separately on the consolidated balance sheets.

Non-controlling Interest

Non-controlling interests represent the portion of the net position that is attributable to investors that are external to and not included in the Hospital's consolidated financial statements.

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 2012 and 2011, the Hospital recorded a special item of approximately \$221,000 and \$1,833,000, respectively, related to a donation of property and equipment to an unrelated not-for-profit organization.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 2012 and 2011 were approximately \$4,815,000 and \$5,285,000, respectively.

Of the Hospital's total expenses reported (approximately \$258,834,000, including interest expense, in 2012 and \$174,518,000, including interest expense, in 2011), an estimated \$2,052,000 and \$2,281,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses including interest expense divided by gross patient service 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.

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 approximately \$1,954,000 as of December 31, 2012 and 2011. Accumulated amortization as of December 31, 2012 and 2011 was approximately \$487,000 and \$397,000, respectively. Amortization expense for the next five succeeding years should approximate \$90,000 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 (IRC) of 1986. As a governmental entity under Section 115 of the IRC, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Foundation is organized as a not-for-profit organization under Section 501(c)(3) of the United States IRC. 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, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and HAMCO 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, 2012 and 2011, 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 HAMCO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 2011 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net position or change in net position.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, results from operations or cash flows.

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. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund (the Fund). For claims on or after July 1, 1999, 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 June 25, 2013.

2. INVESTMENTS

Investments consist of cash, cash equivalents and certificates of deposit which are reported at contract value which approximates fair value. Mutual funds are reported at fair value. Investments balances as of December 31, 2012 and 2011 were approximately \$5,437,000 and \$7,043,000, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets whose use is limited		
Cash and cash equivalents	\$ 14,578,228	\$ 14,566,709
Certificate of deposit	1,316,093	1,417,440
Investments	105,524,666	82,284,152
Accrued interest receivable	8,929	2,479
	<u>\$ 121,427,916</u>	<u>\$ 98,270,780</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 Hospital or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

As of December 31, 2012 and 2011, 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, 2012				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 1,316,093	\$ 202,410	\$ 1,113,683	\$ -0-	\$ -0-
Mutual funds	101,399,098	101,399,098	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 107,715,191</u>	<u>\$ 101,601,508</u>	<u>\$ 1,113,683</u>	<u>\$ -0-</u>	<u>\$ 5,000,000</u>

	December 31, 2011				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 1,417,440	\$ 1,040,315	\$ 377,125	\$ -0-	\$ -0-
Mutual funds	78,102,244	78,102,244	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 84,519,684</u>	<u>\$ 79,142,559</u>	<u>\$ 377,125</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, 2012 AND 2011

Deposits and investments consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Carrying amount		
Deposits	\$ 27,667,870	\$ 28,516,113
Investments	107,715,191	84,519,684
	<u>\$ 135,383,061</u>	<u>\$ 113,035,797</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 8,517,841	\$ 7,722,229
Investments	5,437,304	7,042,788
Board designated funded depreciation investments	111,917,761	89,309,708
Held by trustee for debt service	9,099,125	8,583,943
Other board designated investments	411,030	377,129
	<u>\$ 135,383,061</u>	<u>\$ 113,035,797</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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011:

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011 are as follows:

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Total return bond funds	\$ 865,503	\$ 865,503	\$ -0-	\$ -0-
Cash and cash equivalents	4,571,801			
Total investments	<u>\$ 5,437,304</u>			
Assets whose use is limited				
Mutual funds				
Total return bond funds	\$ 80,940,821	\$ 80,940,821	\$ -0-	\$ -0-
Small-cap value funds	3,706,577	3,706,577	-0-	-0-
Growth funds	3,996,277	3,996,277	-0-	-0-
Large blend funds	11,889,920	11,889,920	-0-	-0-
Total mutual funds	100,533,595	100,533,595	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	105,533,595	<u>\$ 100,533,595</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	14,578,228			
Certificates of deposit	1,316,093			
Total assets whose use is limited	<u>\$ 121,427,916</u>			

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Total return bond funds	\$ 815,613	\$ 815,613	\$ -0-	\$ -0-
Cash and cash equivalents	6,227,175			
Total investments	<u>\$ 7,042,788</u>			
Assets whose use is limited				
Mutual funds				
Total return bond funds	\$ 61,541,881	\$ 61,541,881	\$ -0-	\$ -0-
Small-cap value funds	3,445,635	3,445,635	-0-	-0-
Growth funds	2,566,667	2,566,667	-0-	-0-
Large blend funds	9,732,448	9,732,448	-0-	-0-
Total mutual funds	77,286,631	77,286,631	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	82,286,631	<u>\$ 77,286,631</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	14,566,709			
Certificates of deposit	1,417,440			
Total assets whose use is limited	<u>\$ 98,270,780</u>			

The Hospital's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2012 and 2011.

Realized gains of approximately \$1,071,000 and \$274,000 included in earnings are reported in the consolidated statements of revenues and expenses as a component of investment income. Gains of approximately \$7,493,000 and \$3,252,000 included in earnings for the years are attributable to the change in unrealized gains relating to assets held as of December 31, 2012 and 2011, respectively, and are reported in the consolidated statements of revenues and expense as a component of investment income.

The Hospital holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 their short-term maturity.

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, 2012, the carrying value of the fixed rate long-term debt was \$116,435,000 with a fair value of approximately \$133,584,000.

6. CAPITAL ASSETS

Progressions for capital assets for 2012 and 2011 follow:

	December 31, 2011	Additions	Disposals	Transfers	December 31, 2012
Land	\$ 16,876,853	\$ -0-	\$ (2,600)	\$ (566,552)	\$ 16,307,701
Land improvements	5,972,071	20,350	-0-	13,146	6,005,567
Buildings and fixed equipment	233,768,989	1,501,715	(2,100)	2,760,116	238,028,720
Major movable equipment	68,112,071	5,966,003	(1,704,966)	-0-	72,373,108
Construction in progress	2,638,245	1,755,882	(17,501)	(2,206,710)	2,169,916
Total capital assets	327,368,229	9,243,950	(1,727,167)	-0-	334,885,012
Less accumulated depreciation					
Land improvements	(2,996,742)	(297,970)	2,100	-0-	(3,292,612)
Buildings and fixed equipment	(67,866,663)	(7,439,533)	-0-	-0-	(75,306,196)
Major movable equipment	(48,139,462)	(5,552,896)	1,704,966	-0-	(51,987,392)
Total accumulated depreciation	(119,002,867)	(13,290,399)	1,707,066	-0-	(130,586,200)
Capital assets, net	\$ 208,365,362	\$ (4,046,449)	\$ (20,101)	\$ -0-	\$ 204,298,812

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	December 31, 2010	Additions	Disposals	Transfers	December 31, 2011
Land	\$ 18,731,398	\$ 20,455	\$ (1,875,000)	\$ -0-	\$ 16,876,853
Land improvements	6,143,030	17,000	(168,516)	(19,443)	5,972,071
Buildings and fixed equipment	217,881,954	1,414,120	(2,659,497)	17,132,412	233,768,989
Major movable equipment	70,855,191	5,463,690	(8,206,810)	-0-	68,112,071
Construction in progress	11,648,928	8,119,787	(17,501)	(17,112,969)	2,638,245
Total capital assets	325,260,501	15,035,052	(12,927,324)	-0-	327,368,229
Less accumulated depreciation					
Land improvements	(2,893,252)	(295,454)	211,407	(19,443)	(2,996,742)
Buildings and fixed equipment	(62,695,666)	(7,286,216)	2,095,776	19,443	(67,866,663)
Major movable equipment	(50,719,099)	(5,430,348)	8,009,985	-0-	(48,139,462)
Total accumulated depreciation	(116,308,017)	(13,012,018)	10,317,168	-0-	(119,002,867)
Capital assets, net	\$ 208,952,484	\$ 2,023,034	\$ (2,610,156)	\$ -0-	\$ 208,365,362

Outstanding commitments on capital assets as of December 31, 2012 were approximately \$3,611,000.

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 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 are held by the trustee to secure the tax-exempt revenue bonds. The net book value of the collateral approximated the carrying value of the Series 2007A bonds as of December 31, 2012 and 2011.

The Series 2002D bonds matured in April 2012 at interest rates ranging from 4.00% to 5.00%. Interest was due semi-annually on April 1 and October 1. Net revenues and certain assets held by the trustee secured the tax-exempt revenue bonds.

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 net book value of the collateral approximated the carrying value of the Series 2009A bonds as of December 31, 2012 and 2011.

The Series 2007A and 2009A Bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2012 and 2011, the Hospital believed it was in compliance with the debt coverage ratios.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 and are unsecured. The Hospital is also the sole bond holder of the Indiana Taxable Economic Development Revenue Bonds, Series 2009.

Progressions for long-term debt for 2012 and 2011 include the following:

	December 31, 2011	Additional Borrowings	Payments	December 31, 2012	Current Portion
Indiana Bond Bank					
Special Hospital Program Bonds Series 2002D	\$ 1,550,000	\$ -0-	\$ (1,550,000)	\$ -0-	\$ -0-
Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	1,575,000
Special Hospital Program Bonds Series 2009A	69,115,000	-0-	(2,595,000)	66,520,000	2,710,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>120,580,000</u>	<u>\$ -0-</u>	<u>\$ (4,145,000)</u>	116,435,000	<u>\$ 4,285,000</u>
Unamortized loss on bond defeasance	(2,148,661)			(2,030,927)	
Unamortized bond premium	4,299,602			4,060,112	
	<u>\$ 122,730,941</u>			<u>\$ 118,464,185</u>	
	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
Indiana Bond Bank					
Special Hospital Program Bonds Series 2002D	\$ 3,025,000	\$ -0-	\$ (1,475,000)	\$ 1,550,000	\$ 1,550,000
Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
Special Hospital Program Bonds Series 2009A	71,635,000	-0-	(2,520,000)	69,115,000	2,595,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>124,575,000</u>	<u>\$ -0-</u>	<u>\$ (3,995,000)</u>	120,580,000	<u>\$ 4,145,000</u>
Unamortized loss on bond defeasance	(2,266,396)			(2,148,661)	
Unamortized bond premium	4,547,921			4,299,602	
	<u>\$ 126,856,525</u>			<u>\$ 122,730,941</u>	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,285,000	\$ 5,648,000	\$ 9,933,000
2014	4,495,000	5,431,000	9,926,000
2015	4,720,000	5,202,000	9,922,000
2016	4,960,000	4,960,000	9,920,000
2017	5,205,000	4,709,000	9,914,000
2018-2022	31,265,000	19,540,000	50,805,000
2023-2027	40,760,000	10,901,000	51,661,000
2028-2030	20,745,000	1,332,000	22,077,000
	<u>\$ 116,435,000</u>	<u>\$ 57,723,000</u>	<u>\$ 174,158,000</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, 2012 AND 2011

Medicaid and the Hospital Assessment Fee Program

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.

During 2012, Hospital Assessment Fee (HAF) Program was approved by Centers for Medicare & Medicaid Services. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. 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 2012, the Hospital recognized HAF Program expense of approximately \$8,513,000 which resulted in Medicaid rate increases of approximately \$10,000,000. The HAF Program expense is included in expenses in the consolidated statements of revenues and expenses. The Medicaid rate increases under the HAF Program are included in patient service revenue in the consolidated statements of revenues and expenses.

As a governmental entity, the Hospital is also eligible for the Indiana Medicaid Supplemental programs including Medicaid DSH and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,897,000 and \$3,391,000 during 2012 and 2011, 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Patient service revenue for 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Inpatient routine services	\$ 22,485,230	\$ 22,006,209
Inpatient ancillary services	99,893,352	96,490,436
Outpatient ancillary services	321,268,001	285,829,388
Long-term care services	<u>68,115,197</u>	<u>-0-</u>
Gross patient service revenue	511,761,780	404,326,033
Contractual allowances	211,566,365	200,112,564
Charity care	4,815,000	5,285,000
Bad debts	<u>21,429,984</u>	<u>17,052,042</u>
Deductions from revenue	<u>237,811,349</u>	<u>222,449,606</u>
Net patient service revenue	<u>\$ 273,950,431</u>	<u>\$ 181,876,427</u>

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 does not expect to contribute to the Plan in 2013.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The following is a summary of the Plan as of December 31, 2012 (based on actuarial valuation date of January 1, 2012) and December 31, 2011 (based on actuarial valuation date of January 1, 2011):

	2012	2011
Annual required contribution	\$ 1,862,492	\$ 1,613,170
Interest on net pension obligation	(63,686)	(135,491)
Adjustment to annual required contribution	107,978	229,721
Annual pension cost	1,906,784	1,707,400
Contributions made	-0-	750,000
Change in net pension obligation	1,906,784	957,400
Net pension (benefit), beginning of year	(849,144)	(1,806,544)
Net pension (benefit) obligation, end of year	\$ 1,057,640	\$ (849,144)
Actuarial valuation date	1/1/2012	
Actuarial cost method	Aggregate actuarial cost	
Amortization method	Average remaining service	
Asset valuation method	Market	
	January 1, 2012	January 1, 2011
Actuarial value of assets	\$ 49,706,015	\$ 47,777,119
Accrued actuarial liability	49,344,803	45,354,213
Unfunded actuarial accrued liability	\$ 361,212	\$ 2,422,906
Funded ratio of assets to accrued liability	100.7%	105.3%
Covered payroll	\$ 76,121,054	\$ 74,645,517
Ratio of unfunded liability to covered payroll	-0.5%	-3.2%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	7.5%
Projected salary increases - average	5.0%	5.0%

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Three Year Trend Information			
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
December 31, 2010	\$ 1,755,515	180.3%	\$ (1,806,544)
December 31, 2011	\$ 1,707,400	43.9%	\$ (849,144)
December 31, 2012	\$ 1,906,784	0.0%	\$ 1,057,640

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.

The Hospital's contributions to the plan for 2012 and 2011 were \$850,000 and \$797,000, respectively.

11. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2017. 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, including cancelable and non-cancelable leases, for 2012 and 2011 was approximately \$3,402,000 and \$2,929,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Minimum future payments on non-cancelable leases for the years following December 31, 2012 are:

<u>Year Ending December 31,</u>	
2013	\$ 488,702
2014	362,396
2015	283,254
2016	158,876
2017	59,428
	<u>\$ 1,352,656</u>

Rent expense for facilities and equipment under the long-term care leases discussed in Note 1 was approximately \$6,876,000 and \$-0- for 2012 and 2011, respectively.

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, 2012 and 2011 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Medicare	21%	29%	40%	40%
Medicaid	5%	6%	6%	6%
Blue Cross	13%	15%	27%	30%
Commercial	18%	18%	19%	17%
Self-Pay and other	43%	32%	8%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

13. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, HAMCO and the 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,599,714	\$ 2,313,423
Capital assets	458,054	678,319
Total assets	<u>\$ 3,057,768</u>	<u>\$ 2,991,742</u>
Current liabilities	\$ 123,761	\$ 163,997
Members' capital	2,934,007	2,827,745
Total liabilities and members' capital	<u>\$ 3,057,768</u>	<u>\$ 2,991,742</u>
Net patient service revenue	\$ 3,709,254	\$ 3,880,846
Investment income	24,394	13,690
Total revenue	<u>3,733,648</u>	<u>3,894,536</u>
Expenses	<u>2,313,386</u>	<u>2,608,190</u>
Net income	<u>\$ 1,420,262</u>	<u>\$ 1,286,346</u>

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 674,360	\$ 527,524
Total assets	<u>\$ 674,360</u>	<u>\$ 527,524</u>
Current liabilities	\$ 97,486	\$ 28,926
Net assets	<u>576,874</u>	<u>498,598</u>
Total liabilities and net assets	<u>\$ 674,360</u>	<u>\$ 527,524</u>
Contributions and investment income	\$ 440,996	\$ 341,243
Expenses	<u>362,720</u>	<u>307,811</u>
Change in net assets	78,276	33,432
Net assets, beginning of year	<u>498,598</u>	<u>465,166</u>
Net assets, end of year	<u>\$ 576,874</u>	<u>\$ 498,598</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 \$300,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was approximately \$13,947,000 and \$13,161,000 for 2012 and 2011, respectively.

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

	<u>2012</u>	<u>2011</u>
Unpaid claims, beginning of year	\$ 1,272,623	\$ 2,010,266
Incurred claims and changes in estimates	13,946,808	13,160,567
Claim payments	<u>(13,020,110)</u>	<u>(13,898,210)</u>
Unpaid claims, end of year	<u>\$ 2,199,321</u>	<u>\$ 1,272,623</u>

As of December 31, 2012 and 2011, the Hospital had approximately \$-0- and \$800,000 of reinsurance recovery receivables for stop loss claims netted against the unpaid claims liability.

15. UPCOMING GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the consolidated financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. A cost-sharing employer that does not have a special funding situation, is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

Assets	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 6,856,226	\$ 629,237	\$ 1,032,378	\$ -0-	\$ 8,517,841
Investments	4,573,887	-0-	863,417	-0-	5,437,304
Patient accounts receivable, net	39,990,599	40,107	-0-	-0-	40,030,706
Inventories	824,382	-0-	390,736	-0-	1,215,118
Other current assets	14,001,430	5,016	313,183	-0-	14,319,629
Current portion of assets whose use is limited	4,285,000	-0-	-0-	-0-	4,285,000
Total current assets	70,531,524	674,360	2,599,714	-0-	73,805,598
Assets whose use is limited					
Board designated funded depreciation investments	111,917,761	-0-	-0-	-0-	111,917,761
Held by trustee for debt service	9,099,125	-0-	-0-	-0-	9,099,125
Other board designated investments	411,030	-0-	-0-	-0-	411,030
Total assets whose use is limited	121,427,916	-0-	-0-	-0-	121,427,916
Less current portion	4,285,000	-0-	-0-	-0-	4,285,000
Noncurrent assets whose use is limited	117,142,916	-0-	-0-	-0-	117,142,916
Capital assets					
Land	16,307,701	-0-	-0-	-0-	16,307,701
Depreciable capital assets	314,875,959	-0-	2,595,289	(1,063,853)	316,407,395
Construction in progress	2,169,916	-0-	-0-	-0-	2,169,916
	333,353,576	-0-	2,595,289	(1,063,853)	334,885,012
Less accumulated depreciation	129,512,818	-0-	2,137,235	(1,063,853)	130,586,200
Capital assets, net	203,840,758	-0-	458,054	-0-	204,298,812
Other assets	3,922,194	-0-	-0-	(1,590,036)	2,332,158
Total assets	<u>\$ 395,437,392</u>	<u>\$ 674,360</u>	<u>\$ 3,057,768</u>	<u>\$ (1,590,036)</u>	<u>\$ 397,579,484</u>

See report of independent auditors on pages 1 through 3.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2012

Liabilities and net position	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 4,285,000	\$ -0-	\$ -0-	\$ -0-	\$ 4,285,000
Accounts payable	13,726,028	97,486	121,968	-0-	13,945,482
Accrued salaries and related liabilities	15,918,395	-0-	1,793	-0-	15,920,188
Accrued expenses and other current liabilities	9,751,313	-0-	-0-	-0-	9,751,313
Accrued interest	1,992,871	-0-	-0-	-0-	1,992,871
Estimated third-party settlements	1,019,657	-0-	-0-	-0-	1,019,657
Total current liabilities	46,693,264	97,486	123,761	-0-	46,914,511
Long-term liabilities					
Long-term debt, net of current portion	114,179,185	-0-	-0-	-0-	114,179,185
Total liabilities	160,872,449	97,486	123,761	-0-	161,093,696
Net position					
Invested in capital assets, net of related debt	85,376,573	-0-	458,054	-0-	85,834,627
Restricted for debt service	9,099,125	-0-	-0-	-0-	9,099,125
Unrestricted	140,089,245	576,874	2,475,953	(2,934,007)	140,208,065
Net position - controlling interest	234,564,943	576,874	2,934,007	(2,934,007)	235,141,817
Non-controlling interest	-0-	-0-	-0-	1,343,971	1,343,971
Total net position	234,564,943	576,874	2,934,007	(1,590,036)	236,485,788
Total liabilities and net position	<u>\$ 395,437,392</u>	<u>\$ 674,360</u>	<u>\$ 3,057,768</u>	<u>\$ (1,590,036)</u>	<u>\$ 397,579,484</u>

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2012

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 273,950,431	\$ -0-	\$ 3,709,254	\$ (3,709,254)	273,950,431
Other revenue	5,575,749	-0-	-0-	-0-	5,575,749
Total operating revenue	279,526,180	-0-	3,709,254	(3,709,254)	279,526,180
Operating expenses					
Salaries and wages	81,146,318	-0-	89,662	-0-	81,235,980
Employee benefits	23,452,327	-0-	19,275	-0-	23,471,602
Professional medical fees	3,443,982	-0-	-0-	-0-	3,443,982
Other professional fees	18,357,895	-0-	-0-	(3,709,254)	14,648,641
Medical and surgical supplies	15,603,776	-0-	1,434,942	-0-	17,038,718
Drugs and intravenous solutions	7,349,416	-0-	129,085	-0-	7,478,501
Food	1,522,649	-0-	-0-	-0-	1,522,649
Purchased services	50,939,885	-0-	220,993	-0-	51,160,878
Equipment rental	3,393,555	-0-	7,947	-0-	3,401,502
Hospital Assessment Fee	8,513,418	-0-	-0-	-0-	8,513,418
Telephone and utilities	4,933,183	-0-	-0-	-0-	4,933,183
Depreciation and amortization	13,021,851	-0-	268,548	-0-	13,290,399
Insurance	2,746,128	-0-	8,430	-0-	2,754,558
Facility and equipment leases	6,875,543	-0-	-0-	-0-	6,875,543
Other supplies and expenses	12,790,751	362,720	134,504	-0-	13,287,975
Total operating expenses	254,090,677	362,720	2,313,386	(3,709,254)	253,057,529
Operating income (loss)	25,435,503	(362,720)	1,395,868	-0-	26,468,651
Nonoperating income (expense)					
Investment income (loss) and other	8,408,923	440,996	24,394	(795,017)	8,079,296
Interest expense	(5,776,233)	-0-	-0-	-0-	(5,776,233)
Total non operating income (expense), net	2,632,690	440,996	24,394	(795,017)	2,303,063
Consolidated change in net position before special and other items	28,068,193	78,276	1,420,262	(795,017)	28,771,714
Special item					
Contribution	(221,096)	-0-	-0-	-0-	(221,096)
Other items					
Contributions from non-controlling interest	-0-	-0-	59,584	-0-	59,584
Dividends to non-controlling interest	-0-	-0-	(622,669)	-0-	(622,669)
Consolidated change in net position	<u>\$ 27,847,097</u>	<u>\$ 78,276</u>	<u>\$ 857,177</u>	<u>\$ (795,017)</u>	<u>\$ 27,987,533</u>

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

Assets	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 6,464,706	\$ 502,482	\$ 755,041	\$ -0-	\$ 7,722,229
Investments	6,226,890	-0-	815,898	-0-	7,042,788
Patient accounts receivable, net	22,411,042	21,531	-0-	-0-	22,432,573
Inventories	522,876	-0-	324,661	-0-	847,537
Other current assets	733,407	3,511	417,823	-0-	1,154,741
Current portion of assets whose use is limited	4,145,000	-0-	-0-	-0-	4,145,000
Total current assets	40,503,921	527,524	2,313,423	-0-	43,344,868
Assets whose use is limited					
Board designated funded depreciation investments	89,309,708	-0-	-0-	-0-	89,309,708
Held by trustee for debt service	8,583,943	-0-	-0-	-0-	8,583,943
Other board designated investments	377,129	-0-	-0-	-0-	377,129
Total assets whose use is limited	98,270,780	-0-	-0-	-0-	98,270,780
Less current portion	4,145,000	-0-	-0-	-0-	4,145,000
Noncurrent assets whose use is limited	94,125,780	-0-	-0-	-0-	94,125,780
Capital assets					
Land	16,876,853	-0-	-0-	-0-	16,876,853
Depreciable capital assets	306,459,019	-0-	2,547,006	(1,152,894)	307,853,131
Construction in progress	2,638,245	-0-	-0-	-0-	2,638,245
	325,974,117	-0-	2,547,006	(1,152,894)	327,368,229
Less accumulated depreciation	118,287,074	-0-	1,868,687	(1,152,894)	119,002,867
Capital assets, net	207,687,043	-0-	678,319	-0-	208,365,362
Other assets	3,962,418	-0-	-0-	(1,545,934)	2,416,484
Total assets	\$ 346,279,162	\$ 527,524	\$ 2,991,742	\$ (1,545,934)	\$ 348,252,494

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

Liabilities and net position	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 4,145,000	\$ -0-	\$ -0-	\$ -0-	\$ 4,145,000
Accounts payable	3,616,612	28,926	157,422	-0-	3,802,960
Accrued salaries and related liabilities	8,385,753	-0-	3,575	-0-	8,389,328
Accrued expenses and other current liabilities	1,757,265	-0-	3,000	-0-	1,760,265
Accrued interest	2,055,496	-0-	-0-	-0-	2,055,496
Estimated third-party settlements	1,015,249	-0-	-0-	-0-	1,015,249
Total current liabilities	<u>20,975,375</u>	<u>28,926</u>	<u>163,997</u>	<u>-0-</u>	<u>21,168,298</u>
Long-term liabilities					
Long-term debt	118,585,941	-0-	-0-	-0-	118,585,941
Total liabilities	<u>139,561,316</u>	<u>28,926</u>	<u>163,997</u>	<u>-0-</u>	<u>139,754,239</u>
Net position					
Invested in capital assets, net of related debt	84,956,102	-0-	678,319	-0-	85,634,421
Restricted for debt service	8,583,943	-0-	-0-	-0-	8,583,943
Unrestricted	113,177,801	498,598	2,149,426	(2,827,745)	112,998,080
Net position - controlling interest	206,717,846	498,598	2,827,745	(2,827,745)	207,216,444
Non-controlling interest	-0-	-0-	-0-	1,281,811	1,281,811
Total net position	<u>206,717,846</u>	<u>498,598</u>	<u>2,827,745</u>	<u>(1,545,934)</u>	<u>208,498,255</u>
Total liabilities and net position	<u>\$ 346,279,162</u>	<u>\$ 527,524</u>	<u>\$ 2,991,742</u>	<u>\$ (1,545,934)</u>	<u>\$ 348,252,494</u>

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2011

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 181,876,427	\$ -0-	\$ 3,880,846	\$ (3,880,846)	\$ 181,876,427
Other revenue	4,219,722	-0-	-0-	-0-	4,219,722
Total operating revenue	186,096,149	-0-	3,880,846	(3,880,846)	186,096,149
Operating expenses					
Salaries and wages	75,100,714	-0-	76,768	-0-	75,177,482
Employee benefits	21,908,298	-0-	18,718	-0-	21,927,016
Professional medical fees	2,323,098	-0-	-0-	-0-	2,323,098
Other professional fees	15,265,016	-0-	-0-	(3,880,846)	11,384,170
Medical and surgical supplies	12,482,791	-0-	1,580,686	-0-	14,063,477
Drugs and intravenous solutions	6,555,246	-0-	131,280	-0-	6,686,526
Food	890,507	-0-	-0-	-0-	890,507
Purchased services	10,963,945	-0-	225,751	-0-	11,189,696
Equipment rental	2,922,366	-0-	6,659	-0-	2,929,025
Telephone and utilities	3,583,016	-0-	-0-	-0-	3,583,016
Depreciation and amortization	12,823,174	-0-	419,422	(230,578)	13,012,018
Insurance	1,517,946	-0-	8,430	-0-	1,526,376
Other supplies and expenses	3,430,346	307,811	140,476	-0-	3,878,633
Total operating expenses	169,766,463	307,811	2,608,190	(4,111,424)	168,571,040
Operating income (loss)	16,329,686	(307,811)	1,272,656	230,578	17,525,109
Nonoperating income (expense)					
Investment income (loss) and other	2,225,173	341,243	14,335	(744,275)	1,836,476
Interest expense	(5,946,237)	-0-	(645)	-0-	(5,946,882)
Total nonoperating income (expense), net	(3,721,064)	341,243	13,690	(744,275)	(4,110,406)
Consolidated change in net position before special item and other	12,608,622	33,432	1,286,346	(513,697)	13,414,703
Special item					
Contribution	(1,833,100)	-0-	-0-	-0-	(1,833,100)
Other					
Contributions from non-controlling interest	-0-	-0-	18,940	-0-	18,940
Dividends to non-controlling interest	-0-	-0-	(697,289)	-0-	(697,289)
Consolidated change in net position	\$ 10,775,522	\$ 33,432	\$ 607,997	\$ (513,697)	\$ 10,903,254

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