



COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

CPAs / ADVISORS



HENRY COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Henry County Hospital
New Castle, Indiana

We have audited the accompanying combined balance sheets of Henry County Hospital (the Hospital), a component unit of Henry County, as of December 31, 2010 and 2009, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation (The Foundation), a blended component unit, which statements reflect total assets of approximately \$34.8 million and \$31.9 million as of December 31, 2010 and 2009, respectively, and total revenues of approximately \$5.3 million and \$5.5 million, respectively, for the years then ended. We did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$5.9 million and \$6.8 million as of December 31, 2010 and 2009, respectively, and total revenues of approximately \$23.9 million and \$23.7 million, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the combined financial statements, in so far as it relates to the amounts included for the Foundation and DMC, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, as 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Board of Trustees
Henry County Hospital
New Castle, Indiana

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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based upon our audits and the reports of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

April 22, 2011

HENRY COUNTY HOSPITAL

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

Our discussion and analysis of Henry County Hospital's (the Hospital or HCH) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCH Diversified Management Corporation (DMC).

USING THIS ANNUAL REPORT

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

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

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

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

THE STATEMENT OF CASH FLOWS

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

HENRY COUNTY HOSPITAL

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net assets increased by \$1,600,925 or 2% from 2009 to 2010 and by \$2,968,123 or 5% from 2008 to 2009 as you can see from Table 1.

Table 1: Assets, Liabilities and Net Assets:

	2010	2009	2010-2009 Change	2008
Assets				
Current assets	\$ 20,657,880	\$ 22,569,537	\$ (1,911,657)	\$ 28,174,466
Capital assets, net	39,952,111	42,267,410	(2,315,299)	45,557,589
Other investments and assets	38,363,150	31,399,827	6,963,323	19,944,085
Total assets	<u>\$ 98,973,141</u>	<u>\$ 96,236,774</u>	<u>\$ 2,736,367</u>	<u>\$ 93,676,140</u>
Liabilities				
Current liabilities	\$ 10,663,977	\$ 9,021,135	\$ (1,642,842)	\$ 15,755,488
Long term debt, net of current portion	21,588,436	21,903,913	315,477	15,637,827
Other long term liabilities	-0-	191,923	191,923	131,145
Total liabilities	<u>\$ 32,252,413</u>	<u>\$ 31,116,971</u>	<u>\$ (1,135,442)</u>	<u>\$ 31,524,460</u>
Net assets				
Invested in capital assets, net of related debt	\$ 17,400,902	\$ 19,956,574	\$ (2,555,672)	\$ 22,798,091
Restricted for debt service	-0-	390,635	(390,635)	157,261
Restricted expendable net assets	17,861,242	12,514,787	5,346,455	8,856,380
Unrestricted	31,458,584	32,257,807	(799,223)	30,339,948
Total net assets	<u>\$ 66,720,728</u>	<u>\$ 65,119,803</u>	<u>\$ 1,600,925</u>	<u>\$ 62,151,680</u>

There was a large increase in other investments and assets of \$6,963,323 or 22% from 2009 to 2010. Most of this change can be attributed to investment income during 2010. The decrease in capital assets from 2008 to 2010 is a function of depreciation outpacing the capital asset additions during this time. It should also be noted that there was increase in total net assets from 2008 to 2010 of \$4,569,048 or 7% showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

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

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

In 2010, the Hospital's net assets increased by \$1,600,925 or 2% as shown in Table 2.

Table 2: Operating Results, Changes in Net Assets and Cash Flows

	2010	2009	2010-2009 Change	2008
Operating revenues				
Net patient service revenues	\$ 87,385,395	\$ 86,868,437	\$ 516,958	\$ 87,882,799
Other operating revenues	3,799,186	4,133,501	(334,315)	4,117,740
Total operating revenues	91,184,581	91,001,938	182,643	92,000,539
Operating expenses				
Salaries and benefits	53,837,580	52,222,290	1,615,290	49,892,646
Medical supplies and drugs	13,704,684	13,403,031	301,653	13,438,082
Depreciation and amortization	5,127,889	5,218,614	(90,725)	5,551,546
Other operating expenses	20,160,995	20,164,611	(3,616)	18,369,787
Total operating expenses	92,831,148	91,008,546	1,822,602	87,252,061
Operating income (loss)	(1,646,567)	(6,608)	(1,639,959)	4,748,478
Non-operating revenues and expenses				
Investment income (loss)	3,600,417	3,760,420	(160,003)	(7,268,246)
Other non-operating revenues and expenses, net	(352,925)	(785,689)	432,764	(746,071)
Total non-operating revenues (expenses)	3,247,492	2,974,731	272,761	(8,014,317)
Change in net assets	1,600,925	2,968,123	(1,367,198)	(3,265,839)
Net assets beginning of year	65,119,803	62,151,680	2,968,123	65,417,519
Net assets end of year	\$ 66,720,728	\$ 65,119,803	\$ 1,600,925	\$ 62,151,680

OPERATING INCOME

Our Operating Income continues to be negatively affected by declining volumes in most service areas. We think these declines are correlated to declining use of health care rather than loss of market share. This declining use is attributed to ongoing unemployment in our market as well as high deductibles and co-payments on health insurance plans.

HENRY COUNTY HOSPITAL

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

We saw increased volumes in 4th quarter 2010 which we attribute to patients reaching their co-pays or deductibles and scheduling needed appointments and medical care. OB deliveries continue to have wide volume swings. In 2009 we experienced a significant increase which then reversed and volumes decreased in 2010. Then in the first two months of 2011 deliveries increased 22% from the same two months in 2010. While we think these wide swings are related to the economy, we cannot be certain because birth data collected by the state lags several years behind.

At the end of 2009, the Hospital restructured all of its long-term debt. The Hospital went from a weekly adjustable rate bond backed by a letter of credit from Fifth Third Bank to a Bank Qualified Tax Exempt monthly variable rate bond issued by Regions Bank committed for a seven-year period. This helped bring stability to the Hospital's long-term debt position after two years of volatility.

The growth in surgery volume since 2008 is related to the addition of a third orthopedic surgeon, a pain management specialist and beginning full-time urology services in late 2010.

We have addressed the impact of the declining volumes through a variety of initiatives including downsizing the administrative staff, restructuring the pension plan, an employee Reduction In Force, and ongoing evaluation of ways to decrease expenses without compromising quality. Growing the business also is critical. Full-time urology services were added in 2010 and cardiology and wound care services will expand in 2011.

In December President and CEO Blake Dye, FACHE, announced that he was leaving HCH to become president of St. Vincent Heart Center of Indiana effective January 17, 2011. The Hospital Board of Trustees selected Paul Janssen, FACHE, as the new President and CEO. Janssen previously was the Hospital's CFO and has worked at HCH for 31 years.

HENRY COUNTY HOSPITAL

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

NONOPERATING INCOME

Nonoperating income was primarily driven by investment income, with approximately \$3.6 million and \$3.8 million being earned in 2010 and 2009. This compares to the approximately \$7.3 million loss from investments due to the crash in the market in 2008.

	2010	2009	2010 - 2009 Change	2008
Cash flows from activities				
Operating	\$ 4,026,268	\$ 5,414,146	\$ (1,387,878)	\$ 11,282,032
Noncapital financing	139,222	251,600	(112,378)	426,566
Capital and related financing	(3,369,584)	(3,466,370)	96,786	(5,457,497)
Investing	(6,851,655)	1,676,201	(8,527,856)	(2,344,086)
	<u>\$ (6,055,749)</u>	<u>\$ 3,875,577</u>	<u>\$ (9,931,326)</u>	<u>\$ 3,907,015</u>

The Hospital had cash flows from operations of \$3,944,563 in 2010 and \$5,386,813 in 2009. Cash flows used in capital and related financing activities relate primarily to the purchase of property and equipment. The large decrease in cash flows from investing activities from 2009 to 2010 relates primarily to the Hospital transferring \$3.5 million in cash to investments during 2010.

Volume changes for the Hospital for 2010 and 2009 are as follows:

<u>Service</u>	<u>Volume Change 2009-2010</u>	<u>Volume Change 2008-2009</u>
Admissions (excluding newborns)	-7.3%	-3.4%
Emergency Department Visits	-3.7%	3.2%
Outpatient Registrations	-2.2%	0.2%
Deliveries	-19.1%	17.5%
Inpatient Surgeries	1.2%	-7.2%
Outpatient Surgeries	10.3%	0.2%
CT Scans	-11.8%	-1.8%
Nuclear Scans	-9.0%	-5.7%
MRI Scans	-5.1%	-4.6%
Mammography Procedures	-3.0%	23.8%
Home Health Visits	-8.2%	11.3%
Hospice Visits	-20.3%	42.4%
Wound Care Visits	-10.4%	-17.2%
Sleep Center Visits	1.8%	1.5%
Physical Therapy Visits	1.8%	5.6%

HENRY COUNTY HOSPITAL

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

BAD DEBT AND CHARITY CARE STABILIZE

Overall our total bad debt and charity care has stabilized and reduced slightly from 2008. Reduced volumes most likely impacted the 2010 Bad Debt decrease as more patients with high deductibles or co-payments delayed elective medical care.

Although Charity Care was up slightly in 2010 from 2009, it has stabilized since 2008 largely due to the success of ClaimAid in helping eligible patients receive Medicaid coverage. The increase in bad debt from 2008 to 2009 is primarily related to increasing unemployment and the loss of health insurance.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2006	\$3,177,485	\$4,909,890	\$8,087,375	
2007	\$5,084,917	\$5,296,468	\$10,381,385	28.37%
2008	\$4,284,715	\$7,236,232	\$11,520,947	10.98%
2009	\$8,712,464	\$2,885,883	\$11,598,347	0.67%
2010	\$8,119,921	\$3,174,101	\$11,294,022	-2.62%

STRATEGIC PLANNING –HEALTH CARE REFORM PREPARATION

While there are still many unknowns surrounding healthcare reform, we are actively planning for and initiating key processes including:

- Installation of Electronic Health Records
 - Soarian™ installation in the Hospital in 2010 including electronic documentation in the Emergency Department and use of Soarian care plans in nursing and ancillary departments. Computerized Physician Order Entry is scheduled to go live in late 2011.
 - NextGen™ installation in employed physician practices
 - Increased MD use of e-prescribing
- Physician alignment initiatives in collaboration with our Physician Strategic Council and Henry County Hospital Medical Group
- Accountable Care Organization readiness assessment and strategic planning in conjunction with Suburban Health Organization
- Pilot project with local extended care facility and enhanced discharge planning to reduce 30 day readmissions
- Preparation for value-based purchasing for the Hospital and physician practices
- Realigning primary care for the Medical Home model
- Decreasing our operational costs which in 2010 also included offering early retirements, a Reduction In Force and restructuring of our pension plan.

HENRY COUNTY HOSPITAL

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

HENRY COUNTY HOSPITAL MEDICAL GROUP

Henry County Hospital Medical Group employs 34 physicians in 10 specialties including anesthesiology, cardiology, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, pediatrics and radiology. Physicians are 97% board certified/board eligible.

In 2010 Electronic Health Records were installed in Strong, Brunck & Barrett Surgical Specialists, Antolin, Benninger & Benson Obstetrics & Gynecology and upgrades completed in New Castle Family Physicians and New Castle Pediatrics. Two physicians at New Castle Clinic also now use an Electronic Health Record (EHR). In 2011 NextGen will be installed in cardiology and Henry County Urgent Care. Anesthesiologists and radiologists use Soarian™ our hospital-based EHR.

When completed this will provide many benefits including the ability to merge and access information across all of the practices and within the hospital, quicker turnaround time for results to providers, e-prescribing, secure access and sharing of patient information between offices and whenever the patient record is needed.

LEAN, a business management tool, was utilized in physician offices to increase appointment availability and prepare for the implementation of NextGen EHR in the physician offices. LEAN events were held with physicians in family medicine, internal medicine, general surgery and obstetrics/gynecology. New Castle Family Physicians participated in Diabetes Measurements 1, 2, 3 for the 2010 CMS Physician Quality Reporting Initiative (PQRI). They are one of the early practice leaders in this initiative.

PHYSICIAN RECRUITMENT

Four new primary care physicians joined Henry County Hospital Medical Group in 2010, including two internists, a pediatrician and a family medicine physician. A new orthopedic surgeon will join Henry County Center for Orthopedic Surgery and Sports Medicine in 2012. A partnership with Urology Associates, LLC from Muncie brought full-time urology coverage in New Castle for office hours as well as inpatient and outpatient surgery. We are partnering with them to recruit a full time urologist to join their group and practice exclusively in New Castle.

Recruitment continues for two pediatricians, and we expect to add additional Nurse Practitioners and Physician Assistants to help expand primary care services with the anticipated shortage of primary care physicians across the U.S.

HENRY COUNTY HOSPITAL

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

A new physician recruitment web site launched in early 2011. Developed in conjunction with Suburban Health Organization, the site provides a comprehensive and compelling image of HCH and our physician opportunities. The site also includes social media sharing buttons to allow prospects to share information with other job seekers and colleagues. Candid video interviews with Dr. Matt Barrett and Dr. David Barr show potential candidates what it's really like to be part of Henry County Hospital. The site also features handpicked "local favorites," physician and patient testimonials.

MARKETING

In 2010 marketing focused on enhanced brand development, marketing physicians, community outreach and employee communications. We continue to use a variety of internal and external communication vehicles to reach our target market area of Henry County and western Wayne County. Our physician liaison regularly calls on physicians practicing in those areas who are not members of the HCH medical staff to encourage them to use HCH services. Most Need-A-Doctor phone line requests are for primary care and our Need-A-Doctor staff person arranges the initial appointment for them. Physician offices continue to work to increase appointment availability. We expanded our outreach in Rush County in 2010 when our three orthopedic surgeons began seeing patients in Rushville in a cooperative program with Rush Memorial Hospital.

CARDIOLOGY AND WOUND CARE EXPANSION

A joint venture between the Hospital and Accelecare Wound Centers, a national comprehensive wound care company, will expand wound care services in 2011. In addition to traditional wound care services currently offered, two hyperbaric chambers that hasten wound healing will provide an important new benefit for patients.

A management agreement with Care Group Cardiovascular (now Navion Healthcare Solutions) was signed to enhance and expand cardiology services and leverage the expertise of St. Vincent Heart Hospital of Indiana. Our Cardiology Council is overseeing numerous program enhancements. Nuclear Cardiology received accreditation in early 2011 from the American College of Radiology. In 2011 applications will be made to receive accreditations for a Chest Pain Center and our Echocardiography Lab. We anticipate construction will begin on a new Cardiac Catheterization Lab in summer or fall 2011.

LEAN SUPPORTS IMPROVED CARE PROCESSES

The LEAN events in 2010 primarily focused on improving workflow to assist with Electronic Health Records installation and usage, physician credentialing, patient satisfaction, standardizing patient care workflow, enhanced discharge planning and improved outpatient appointment scheduling at New Castle Family Physicians.

HENRY COUNTY HOSPITAL

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

IMAGING RECEIVES MAGNETIC RESONANCE IMAGING (MRI) AND NUCLEAR MEDICINE ACCREDITATIONS

Imaging received both MRI and Nuclear Medicine accreditations by the American College of Radiology in early 2011. Accreditation was received with the first submission for both services, which is a credit to the excellent work the team did in preparing the application, and further demonstrates the expertise of the staff and quality of work Henry County Hospital has always had in place. An accreditation application also has been submitted for Computed Tomography (CT) scans.

Outpatient imaging studies including MRI, CT, and Nuclear Medicine continue to report decreased volumes. These declines are the result of a number of factors including HCH decreased admissions and outpatient registrations; the continuing patient financial pressures related to unemployment, higher deductibles and co-pays; growing concerns about overuse of imaging procedures and potential long-term radiation impact, and the encouragement by insurance companies for patients to use lower-cost free-standing imaging centers.

Mammography studies also are decreasing at HCH and nationally, which some experts attribute to the federal report recommending that many women do not need yearly mammograms and increasing the age for the first mammogram. A Susan B. Komen grant was awarded to ICAP (Interlocal Community Action Program) and Henry County Hospital to offer free mammograms for uninsured or underinsured women through the Mammogram Assistance Program.

We continue to monitor volumes and patient demands in an effort to maintain convenient hours and provide same day service when needed to help ensure patient access as quickly as possible.

NURSING ACHIEVEMENTS COVER MANY AREAS

In 2010, Nursing had a 1% vacancy rate and a 3.35% turnover rate, which was significantly less than the national vacancy rate of 6% and national turnover rate of 12.4%. While these low rates can somewhat be attributed to nurses' desire for stability in today's economy, we also think it can be attributed to the leadership in Nursing.

Nursing reduced restraint use on the Patient Care Unit with only one patient restrained in 2010 for a short period. Intravenous (IV) Infiltrate rates were reduced as a result of staff education and product changes. Smart Pumps to help reduce IV Medication Errors have been purchased with implementation scheduled for April 2011. Membership in the National Database of Nursing Quality Indicators will provide important benchmarking data.

HENRY COUNTY HOSPITAL

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

Electronic plans of care were implemented on nursing units and the Emergency Department implemented electronic documentation. Nursing Order Entry will begin in mid-2011 as the first phase of movement to Computerized Physician Order Entry (CPOE) in late 2011.

To better prepare patients for discharge and help reduce 30-day readmission rates, there has been increased use of multidisciplinary white boards in patient rooms to improve communications and encourage patient involvement. Follow-up physician appointments are made before the patient leaves the Hospital and follow-up discharge calls are made 2-3 days after the patient returns home to see what, if any, additional help the patient may need.

PATIENT SATISFACTION EMPHASIS CONTINUES

The HCAHPS measures patients' satisfaction with their hospital experience. For the period April 2009 through March 2010, as reported on Hospital Compare, 70% of patients chose the top scores of 9 or 10 for the overall rating they gave to HCH as compared to a state average of 71% and a national average of 67%. Sixty-nine percent indicated they would "definitely recommend" HCH compared to 72% for the state average and 69% for the national average. For this period, HCH was above the national and state averages in five areas, equal or just below in 5 areas.

Our goal is for 75% of patients to give us the highest rating. Using the data available for 2010, three domains were consistently above our goal, three domains were between 70%-74%, and three areas between 67%-69%.

Our goal for patient satisfaction continues to be in the 90th percentile or above on Inpatient, Outpatient and Emergency Department patient surveys from Press Ganey. We have struggled with reaching and maintaining our goal and have seen a downward trend with inpatient satisfaction in the last three years.

Our average scores in 2010 were:

Inpatient	84th percentile
Emergency Department	73rd percentile
Outpatient	42nd percentile

The inpatient average dropped 2 percentile, the Emergency Department average improved 8 percentile, and the Outpatient average decreased 19 percentile from our 2009 scores. The Inpatient Satisfaction and ER Satisfaction Committees continue to meet to discuss improvements. The ER Satisfaction Committee focused on involvement of staff with ideas for improvement and response to complaints.

HENRY COUNTY HOSPITAL

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

For 2010, Outpatient Rehab focus for patient satisfaction was on reducing wait times and adding overall value to their experience. In addition to these items, we have addressed patient privacy issues, our registration process, optimizing billing practices; and our Performance Improvement projects almost all focused on improving final outcomes -- often with fewer visits.

Lab patient satisfaction improvement efforts focused on having a short time, average of 5 minutes, to make a difference in the patient encounter, and emphasis on importance of staff friendliness. Imaging has been focusing on communication with the patient and their families, improved signage and developing patient thank you cards.

All employees are required to participate in customer service training. Discharge phone calls are made to assess patient satisfaction and a formalized service recovery program is ongoing. Inpatient nursing units continue hourly rounding to proactively address patient needs. Focus has been on addressing needs for improvement identified in the HCAHPS survey, especially focusing on answering call lights and providing pain control. The Hospital also has an ongoing employee recognition program for superior customer service.

PATIENT SAFETY FOCUSES ON MULTIPLE MEASUREMENTS AND AREAS

Henry County Hospital is accredited by the Healthcare Facilities Accreditation Program (HFAP). Our triennial survey was conducted in March, 2011 with full accreditation received. We used 2010 to prepare for the survey developing policies and procedures for new standards and conducting mock surveys to test readiness. The Indiana State Department of Health (ISDH) conducted a survey in 2010, and four minor deficiencies were identified and corrected. Indiana has an Adverse Event Reporting program and HCH had no reportable adverse events in 2010.

A major focus in 2010 was the re-design of our discharge process to incorporate new HFAP discharge standards to better prepare the patient for transition to an after-hospital setting, and to ensure continuity and appropriate follow-up. Our goal is to reduce readmissions by implementing these evidence-based practices. Another area of evidence-based practice change is control of hyperglycemia with the implementation of HFAP standards in this area.

HCH is participating in numerous local and national patient safety measurements. Our goal in 2010 was to obtain 98% or above for Centers for Medicare & Medicaid Services (CMS) measures for heart failure, acute myocardial infarction (AMI), surgical complication improvement program (SCIP), and pneumonia. In the report for the 3rd quarter of 2009, all but four measures were above the 98th percentile, with only one measure being below 90%, discharge instructions for Heart Failure patients. Periodically measures fail for appropriate reasons, as the measures cannot address all situations. Our low volumes also impact our ability to always meet the aggressive goal of 98%.

HENRY COUNTY HOSPITAL

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

The Tumor Board conferences in conjunction with oncologists from Ball Memorial Hospital continue to be well attended and a positive educational experience for the participants. These conferences provide a forum for multidisciplinary discussion of cancer patients.

The Event Management System (EMS), in conjunction with Suburban Health Organization (SHO), is a helpful tool in identifying and tracking incidents and complaints. For 2010 we had a 112% increase in the number of incidents reported. The main reasons for the increase are related to two initiatives, with data being captured for IV infiltrations, (IV Category) and Soarian order entry errors (Testing/Treatments).

HCH also participates in a Best Practice Sharing with other Suburban Health Organization hospitals on areas that relate to CMS measures, Risk Management, Patient Safety and Anthem Quality Scorecard issues.

Standard Care Bundles have been implemented to prevent bloodstream infections and ventilator associated pneumonia. Henry County Hospital had 119 patients with central lines in 2010, with three acquiring central line infections. There have been no ventilator associated pneumonia cases since 3rd quarter, 2005.

PHARMACY FOCUSING ON ELECTRONIC HEALTH RECORDS

In 2010 the pharmacy focused on integrating Zynx evidence based order sets with our current order sets. This will standardize our order sets with the most current evidence that is available. We have also been working diligently on building the CPOE System to decrease errors and for ease of use for the physicians.

COMMUNITY BENEFITS

HCH provided just over \$2.3 million in community benefits in 2009, the most recent year reported. The Hospital provides health education programs including childbirth classes, diabetes classes, smoking cessation and stress management. We also participate in a number of community initiatives including health fairs. Nearly 500 women attended the second Affairs of the Heart program designed to educate women about their risk for heart disease and preventative measures they can take. Quarterly Parish Nurse programs are held to encourage the growth of Parish Nursing in local churches and an annual meeting for school nurses is sponsored in conjunction with the Henry County Health Department, New Castle Family Physicians and New Castle Pediatrics.

Henry County Sports Medicine provides low-cost game coverage, injury checks, and performance enhancement programs for area high schools. The Hospital and its staff support area agencies, programs and events such as Henry County Wellness Council, Henry County Healthy Communities, Relay for Life, and in 2011 will support the first triathlon in Henry County – Summit Lake Triathlon – to encourage people of all abilities to participate and promote healthier lifestyles.

HENRY COUNTY HOSPITAL

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

SCHOLARSHIPS AND TEACHING HOSPITAL AID RECRUITMENT

Henry County Hospital is a teaching hospital that not only helps train medical professionals, but also aids HCH recruitment. Each year students take various clinical rotations at HCH and are often hired as permanent staff. We serve as a clinical site for Ivy Tech State College's two-year RN program in New Castle and their Richmond LPN program. In 2010 nursing students from Anderson University and a Butler University pharmacy student also interned at HCH.

The Hospital is an integral part of the Health Career Programs sponsored by New Castle Area Career Programs. Each year approximately 45 students participate in the two clinical sections at Henry County Hospital: Nursing and Allied Health which includes careers such as imaging, respiratory, pharmacy, lab, physical therapy and dietary.

The Dr. Cloyd L. and Mary Lou Dye scholarship fund provides financial support for medical students, interns, residents and fellows. Seven scholarships were awarded in 2010 to Henry County residents.

The Henry County Hospital Foundation offers a variety of scholarships for students interested in healthcare careers and working at Henry County Hospital after graduation. They are available for high school seniors as well as for adults who are considering a new or second career in health care.

In the last six years, 135 nursing and other health care scholarships worth \$206,145 have been awarded from proceeds from our annual Gala, donations from the Henry County Hospital Auxiliary and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks, Lynn Bowers MD Patient Hero and Ralph Bunner.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the Hospital had approximately \$39,900,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2010, the authority purchased new equipment costing approximately \$2,310,000. Of this, \$695,000 was acquired through capital leases. During 2009 approximately \$1,700,000 of total \$1,819,000 in capital additions was spent to acquire new equipment. Equipment purchased under capital lease was \$366,000 in 2009.

HENRY COUNTY HOSPITAL

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

Debt

At year-end, the Hospital had approximately \$22,550,000 in revenue bonds, notes and loans, and capital lease obligations outstanding as detailed in Note 8 to the financial statements. The Hospital initiated new capital leases of approximately \$695,000 in 2010. During 2009 the Hospital initiated new capital leases of approximately \$366,000 and refinanced revenue bonds receiving a new issue in the approximate amount of \$21,594,121. The Hospital's formal debt issuances—revenue notes—cannot be issued without approval of the Hospital's board of trustees. The amount of debt issued is subject to limitations that apply to the Hospital and its component units as a whole.

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

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,010,538	\$ 10,824,984
Restricted cash equivalents	-0-	336,231
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$5,920,999 in 2010 and \$5,777,839 in 2009	10,219,001	9,852,353
Supplies and other current assets	1,720,876	1,463,483
Current portion of assets whose use is limited	707,465	92,486
Total current assets	<u>20,657,880</u>	<u>22,569,537</u>
Investments	15,757,192	13,282,961
Assets whose use is limited		
Internally designated	16,935,251	11,682,263
Held by trustee	-0-	390,635
By donor - expendable - for capital acquisition	925,991	832,524
	<u>17,861,242</u>	<u>12,905,422</u>
Less current portion	707,465	92,486
Total assets whose use is limited	<u>17,153,777</u>	<u>12,812,936</u>
Capital assets, net	39,952,111	42,267,410
Other assets	5,452,181	5,303,930
Total assets	<u>\$ 98,973,141</u>	<u>\$ 96,236,774</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Current portion of long-term debt	\$ 962,773	\$ 406,923
Accounts payable and accrued expenses	3,861,613	3,104,571
Accrued wages and related liabilities	3,872,336	3,847,869
Estimated third-party settlements	1,967,255	1,661,772
Total current liabilities	<u>10,663,977</u>	<u>9,021,135</u>
Other long-term liabilities	-0-	191,923
Long-term debt, net of current portion	<u>21,588,436</u>	<u>21,903,913</u>
Total liabilities	32,252,413	31,116,971
Net assets		
Unrestricted	31,458,584	32,257,807
Invested in capital assets, net of related debt	17,400,902	19,956,574
Restricted		
Expendable - debt service	-0-	390,635
Expendable - funded depreciation	16,935,251	11,682,263
By donor - expendable - for capital acquisition	925,991	832,524
Total net assets	<u>66,720,728</u>	<u>65,119,803</u>
Total liabilities and net assets	<u><u>\$ 98,973,141</u></u>	<u><u>\$ 96,236,774</u></u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

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

	<u>2010</u>	<u>2009</u>
Operating revenue		
Net patient service revenue	\$ 87,385,395	\$ 86,868,437
Other revenue	3,799,186	4,133,501
Total revenue	<u>91,184,581</u>	<u>91,001,938</u>
Operating expenses		
Salaries and benefits	53,837,580	52,222,290
Medical professional fees	3,323,580	3,087,848
Other professional fees	7,307,380	6,368,274
Medical supplies and drugs	13,704,684	13,403,031
Other supplies	1,043,619	951,031
Depreciation and amortization	5,127,889	5,218,614
Utilities	1,632,698	1,448,115
Rent	860,869	953,349
Other	5,992,849	7,355,994
Total expenses	<u>92,831,148</u>	<u>91,008,546</u>
Operating loss	(1,646,567)	(6,608)
Nonoperating income		
Investment income	3,600,417	3,760,420
Interest expense	(492,147)	(1,037,289)
Other nonoperating	139,222	251,600
Total nonoperating income (expense)	<u>3,247,492</u>	<u>2,974,731</u>
Change in net assets	1,600,925	2,968,123
Net assets		
Beginning of year	65,119,803	62,151,680
End of year	<u>\$ 66,720,728</u>	<u>\$ 65,119,803</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

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

	2010	2009
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 87,324,230	\$ 88,306,507
Cash paid to employees for wages and benefits	(53,813,113)	(51,948,938)
Cash paid to vendors for goods and services	(33,880,648)	(34,935,703)
Other operating receipts, net	4,395,799	3,992,280
Net cash flows from operating activities	4,026,268	5,414,146
Cash flows from noncapital financing activities		
Other nonoperating	139,222	251,600
Net cash flows from noncapital financing activities	139,222	251,600
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(2,313,991)	(1,452,402)
Interest on long-term debt	(492,147)	(1,037,289)
Payment of bond issuance costs	(108,745)	(161,729)
Proceeds from issuance of long-term debt	-0-	21,594,120
Principal payments on long-term debt, net	(454,701)	(22,409,070)
Net cash flows from capital and related financing activities	(3,369,584)	(3,466,370)
Cash flows from investing activities		
Investment income	3,600,417	3,760,420
Change in other assets, net	(148,307)	(243,116)
Change in assets whose use is limited - held by Trustee, net	307,435	(3,724,224)
Change in assets whose use is limited - internally designated and investments, net	(10,517,733)	1,933,010
Change in assets whose use is limited - restricted by donor, net	(93,467)	(49,889)
Net cash flows from investing activities	(6,851,655)	1,676,201
Net change in cash and cash equivalents	(6,055,749)	3,875,577
Cash and cash equivalents		
Beginning of year	14,244,514	10,368,937
End of year	\$ 8,188,765	\$ 14,244,514

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

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

Reconciliation of operating income (loss) to net cash flows from operating activities	<u>2010</u>	<u>2009</u>
Operating loss	\$ (1,646,567)	\$ (6,608)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	5,127,889	5,218,614
Loss on disposal of assets	213,887	2,117
Bad debts	8,119,921	8,712,464
Capital project abandoned	60,031	-0-
Changes in assets and liabilities		
Patient accounts receivable	(8,486,569)	(8,553,979)
Supplies and other current assets	(257,393)	365
Accounts payable and accrued expenses	757,042	(1,572,542)
Accrued salaries and related liabilities	24,467	273,352
Other long-term liabilities	(191,923)	60,778
Estimated third-party settlements	305,483	1,279,585
Net cash flows from operating activities	<u>\$ 4,026,268</u>	<u>\$ 5,414,146</u>

Reconciliation of cash and cash equivalents to the balance sheets

Cash and cash equivalents		
In current assets	\$ 8,010,538	\$ 11,161,215
In assets whose use is limited - internally designated	178,227	3,000,099
In assets whose use is limited - held by Trustee	-0-	83,200
Total cash and cash equivalents	<u>\$ 8,188,765</u>	<u>\$ 14,244,514</u>

Supplemental cash flows information

Property acquired through capital lease obligations	\$ 695,074	\$ 366,286
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See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

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

The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

Blended Component Units

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

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

DMC provides laboratory services to the patients of New Castle Family Physicians, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC owned Henry County Urgent Care, LLC in 2009. Henry County Urgent Care, LLC operated an emergency care physician office located in a shopping center in New Castle. In October 2010, Henry County Urgent Care, LLC was merged into New Castle Clinic, Inc.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic and Henry County Urgent Care, LLC for the years ended December 31, 2010 and 2009.

All intercompany accounts and transactions have been eliminated.

Use of Estimates

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

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.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less.

Restricted Cash Equivalents

The restricted cash equivalents consist of money market investments accumulated from monthly deposits the Hospital and Foundation are required to make to the Trustee for long-term bonds for payment of interest and bond principal.

Patient Accounts Receivable, Net and Net Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Medicare cost report program has been audited through December 31, 2007, with differences reflected as deductions from revenue in 2010 and 2009. Amounts for the unresolved cost reports as well as other allowances are reflected in estimated third-party settlements on the balance sheets.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital did not recognize a change in net assets in 2010 and 2009 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.

Net revenues from Medicare and Medicaid programs accounted for approximately 37 percent and 5 percent for the year ended 2010 and 36 percent and 8 percent for the year ended 2009.

Investments in Debt and Equity Securities

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

Assets Whose Use Is Limited

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments internally designated by the Hospital Board for acquisition of property and equipment and debt service, investments held by trustees for the retirement of debt obligations, and donor restricted funds. These investments consist primarily of certificates of deposit, cash and cash equivalents, mutual funds, equities, and corporate bonds. Investment income is reported as nonoperating income in the combined statements of revenues, expenses, and changes in net assets.

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Amortization expense for 2010 and 2009 was \$18,192 and \$8,448, respectively. Bond issue costs are included within other assets

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major Movable equipment	3 - 20 years

Grants and Contributions

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

Restricted Resources

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

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures and internally designated by the board of directors. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Operating Revenues and Expenses

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

Performance Indicator and Operating Indicator

The statements of operations and changes in net assets include a performance indicator, change in net assets. The statements of operations and changes in net assets also include an operating indicator, operating income (loss). Consistent with industry practice, certain nonoperating items are excluded from the operating indicator including investment income and interest expense.

Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual on a bi-weekly basis computed on the hourly rate and PDO balance per employee, and the financial statements recognize this liability. Accumulated PDO is reported as a current liability in the amount of \$1,639,155 and \$2,064,203 for 2010 and 2009, respectively.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits.

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2010 or 2009.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). Henry County Hospital Foundation, Inc. is a 501(c)(3) not-for-profit organization. HCMH Diversified Management Corporation is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital. HCMH Diversified Management Corporation has filed its federal and state income tax returns for periods through December 31, 2009. These income tax returns are generally open to examination by 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).

Litigation

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

Reclassifications

Certain amounts from 2009 have been reclassified in order to conform to the 2010 presentation.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is April 22, 2011.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

2. ACCOUNTS RECEIVABLE AND PAYABLE

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

	<u>2010</u>	<u>2009</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 14,933,782	\$ 14,353,289
Receivable from Medicare	7,295,161	6,687,404
Receivable from Medicaid	<u>2,932,960</u>	<u>3,158,327</u>
Total patient accounts receivable	25,161,903	24,199,020
Less contractual allowances	(9,021,903)	(8,568,828)
Less allowance for uncollectible amounts	<u>(5,920,999)</u>	<u>(5,777,839)</u>
Patient accounts receivable, net	<u>\$ 10,219,001</u>	<u>\$ 9,852,353</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,125,738	\$ 3,151,738
Payable to suppliers	3,861,613	3,104,571
Accrued employee health benefit claims	<u>746,598</u>	<u>696,131</u>
Total accounts payable and accrued expenses	<u>\$ 7,733,949</u>	<u>\$ 6,952,440</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

3. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

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

	<u>2010</u>	<u>2009</u>
Board designated		
Funded depreciation		
Investments	\$ 16,757,024	\$ 2,623,059
Certificate of deposit	-0-	6,059,105
Cash and cash equivalents	178,227	3,000,099
Trustee held assets		
US government securities	-0-	307,435
Cash and cash equivalents	-0-	83,200
Donor restricted assets		
Investments	<u>925,991</u>	<u>832,524</u>
Total assets limited to use	<u>\$ 17,861,242</u>	<u>\$ 12,905,422</u>

4. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and U.S. Government securities.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2010 and 2009, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

December 31, 2010					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
Mutual Funds	\$ 29,421,698	\$ 29,421,698	\$ -0-	\$ -0-	\$ -0-
Equities	3,998,273	3,998,273	-0-	-0-	-0-
Certificates of Deposit and Cash	198,463	198,463	-0-	-0-	-0-
	\$ 33,618,434	\$ 33,618,434	\$ -0-	\$ -0-	\$ -0-

December 31, 2009					
Carrying Amount	Investment Maturities (in years)				
	Less than 1	1-5	6-10	More than 10	
US Government Securities	\$ 307,435	\$ 307,435	\$ -0-	\$ -0-	\$ -0-
Mutual Funds	15,765,543	15,765,543	-0-	-0-	-0-
Corporate Bonds	973,000	-0-	-0-	-0-	973,000
Certificates of Deposit and Cash	9,142,405	9,142,405	-0-	-0-	-0-
	\$ 26,188,383	\$ 25,215,383	\$ -0-	\$ -0-	\$ 973,000

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

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

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 8,010,538	\$ 11,161,215
Investments	33,618,434	26,188,383
	<u>\$ 41,628,972</u>	<u>\$ 37,349,598</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 8,010,538	\$ 10,824,984
Restricted cash equivalents	-0-	336,231
Investments	15,757,192	13,282,961
Internally designated	16,935,251	11,682,263
Held by trustee for debt service	-0-	390,635
By donor - expendable - for capital acquisition	925,991	832,524
	<u>\$ 41,628,972</u>	<u>\$ 37,349,598</u>

Investment income for 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Unrealized gains	\$ 2,676,262	\$ 4,043,461
Realized gains (losses)	88,149	(728,274)
Interest and dividends	836,006	445,233
	<u>\$ 3,600,417</u>	<u>\$ 3,760,420</u>

5. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
Mutual Funds	\$ 29,421,698	\$ 29,421,698	\$ -0-	\$ -0-
Equities	3,998,273	3,998,273	-0-	-0-
	33,419,971	\$ 33,419,971	\$ -0-	\$ -0-
Certificates of deposit and cash and cash equivalents *	198,463			
	\$ 33,618,434			

*Certificates of deposit are reported at contract value

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & assets whose use is limited				
US Government Securities	\$ 307,435	\$ 307,435	\$ -0-	\$ -0-
Mutual funds	15,765,543	15,765,543	-0-	-0-
Corporate Bonds	973,000	-0-	973,000	-0-
	17,045,978	\$ 16,072,978	\$ 973,000	\$ -0-
Certificates of deposit and cash and cash equivalents *	9,142,405			
	\$ 26,188,383			

*Certificates of deposit are reported at contract value

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

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

6. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2010 and 2009, follows:

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,297,525	47,820	(87,181)	-0-	2,258,164
Buildings and improvements	55,991,785	571,173	(1,905,137)	42,225	54,700,046
Fixed equipment	15,525,712	840,258	(435,481)	-0-	15,930,489
Major equipment	27,795,505	1,476,292	(1,177,267)	34,174	28,128,704
Construction in progress	91,494	73,522	(48,277)	(76,399)	40,340
Total capital assets	104,150,255	3,009,065	(3,653,343)	-0-	103,505,977
Less accumulated depreciation:					
Land improvements	(1,914,759)	(65,653)	27,149	-0-	(1,953,263)
Buildings and improvements	(27,660,925)	(2,134,040)	1,740,544	-0-	(28,054,421)
Fixed equipment	(12,790,669)	(1,086,720)	435,481	-0-	(13,441,908)
Major equipment	(19,516,492)	(1,763,623)	1,175,841	-0-	(20,104,274)
Total accumulated depreciation	(61,882,845)	(5,050,036)	3,379,015	-0-	(63,553,866)
Capital assets, net	\$ 42,267,410	\$ (2,040,971)	\$ (274,328)	\$ -0-	\$ 39,952,111
	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 2,448,234	\$ -0-	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,233,205	-0-	-0-	64,320	2,297,525
Buildings and improvements	56,067,075	21,065	(96,355)	-0-	55,991,785
Fixed equipment	15,096,088	139,520	(24,372)	314,476	15,525,712
Major equipment	26,879,629	1,566,610	(683,082)	32,348	27,795,505
Construction in progress	412,722	91,493	(1,577)	(411,144)	91,494
Total capital assets	103,136,953	1,818,688	(805,386)	-0-	104,150,255
Less accumulated depreciation:					
Land improvements	(1,847,413)	(67,346)	-0-	-0-	(1,914,759)
Buildings and improvements	(25,534,088)	(2,223,172)	96,335	-0-	(27,660,925)
Fixed equipment	(12,230,465)	(576,245)	16,041	-0-	(12,790,669)
Major equipment	(17,967,398)	(2,229,319)	680,225	-0-	(19,516,492)
Total accumulated depreciation	(57,579,364)	(5,096,082)	792,601	-0-	(61,882,845)
Capital assets, net	\$ 45,557,589	\$ (3,277,394)	\$ (12,785)	\$ -0-	\$ 42,267,410

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

7. LONG-TERM DEBT

In December 2009, the Hospital issued, through the Indiana Financing Authority, the Health Facility Revenue Bonds Series 2009 (Series 2009). The Hospital then entered into an agreement with a local financial institution where the financial institution purchased the Series 2009 in a private placement. At the end of the agreement, the Series 2009 bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another term period with the current financial institution. The Series 2009 bonds had an interest rate of 2.48% and 2.46% at December 31, 2010 and 2009, respectively, and are collateralized by Hospital assets.

A portion of the Series 2009 bonds were used to refund the Series 2002 bonds. The net proceeds of \$15,449,894 (after a payoff transaction for a note payable to Citizens State Bank and payments for underwriting fees, insurance, and other issuance costs related to the 2009 issuance) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series bonds. As a result, the 2002 Series bonds were considered to be defeased in 2009 and the liability for those bonds and the associated trust account assets has been removed from the balance sheet. These transactions in essence created a deferred loss in 2009 on the advance refunding of the 2002 bonds of \$284,086.

Annual bond payments for the 2009 bonds commence on January 1, 2011 and continue through January 1, 2030 ranging from \$718,575 to \$1,528,320 with a variable interest rate.

The bond agreement states that the interest rate will be calculated using LIBOR, plus an applicable margin component calculated on the cash to debt ratio of the borrower. In no event shall the resulting variable rate be less than 2.45%. The bond is secured by hospital revenues and assets.

The Foundation purchased an MRI machine in 2005 for \$1,518,000, which was financed with a 5 year, 4.38% loan with monthly payments of \$29,241. This loan was paid off in full during 2010.

DMC financed various equipment purchases with 4-7% installment loans payable in monthly or annual installments with maturity dates ranging from 2010 to 2012. These loans are secured by equipment.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital has capital lease obligations, at varying rates of imputed interest of 2.76% to 7.49%, collateralized by leased equipment with costs of \$1,141,444 and \$442,168 as of December 31, 2010 and 2009, respectively. Accumulated depreciation on capital leases was \$164,915 and \$47,113 at December 31, 2010 and 2009, respectively.

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

	Balance December 31, 2009	Additional borrowings	Payments	Balance December 31, 2010	Current portion	Long-term portion
Demand Revenue Bonds, Series 2009	\$ 21,594,121	\$ -0-	\$ -0-	\$ 21,594,121	\$ 718,575	\$ 20,875,546
Equipment loans	310,779	-0-	310,779	-0-	-0-	-0-
Installment loans payable	11,428	-0-	3,678	7,750	3,807	3,943
Capital leases	394,508	695,074	140,244	949,338	240,391	708,947
	<u>\$ 22,310,836</u>	<u>\$ 695,074</u>	<u>\$ 454,701</u>	<u>\$ 22,551,209</u>	<u>\$ 962,773</u>	<u>\$ 21,588,436</u>

	Balance December 31, 2008	Additional borrowings	Payments	Balance December 31, 2009	Current portion	Long-term portion
Demand Revenue Bonds, Series 2002	\$ 16,095,000	\$ -0-	\$ 16,095,000	\$ -0-	\$ -0-	\$ -0-
Demand Revenue Bonds, Series 2009 A	-0-	21,594,121	-0-	21,594,121	-0-	21,594,121
Note payable	5,908,091	-0-	5,908,091	-0-	-0-	-0-
Installment loan payable	18,818	-0-	18,818	-0-	-0-	-0-
Equipment loans	631,527	-0-	320,748	310,779	310,779	-0-
Installment loans payable	14,942	-0-	3,514	11,428	3,658	7,770
Capital leases	91,120	366,287	62,899	394,508	92,486	302,022
	<u>\$ 22,759,498</u>	<u>\$ 21,960,408</u>	<u>\$ 22,409,070</u>	<u>\$ 22,310,836</u>	<u>\$ 406,923</u>	<u>\$ 21,903,913</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital is also required to meet certain financial and affirmative covenants. One of these covenants requires that the Hospital maintain a minimum of \$6.5 million in cash and investments with the Lender. The Hospital believes it is in compliance with all covenants as of December 31, 2010 and 2009.

Scheduled principal repayments on long-term debt following December 31, 2010 are as follows:

<u>Years Ending December 31,</u>	<u>Long-term debt</u>		<u>Capital leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 722,382	\$ 531,215	\$ 240,391	\$ 36,071
2012	758,360	513,538	228,399	26,835
2013	784,407	494,980	226,558	18,108
2014	816,150	475,683	168,722	9,615
2015	848,616	1,017,409	85,268	1,600
2016-2020	4,780,218	1,772,911	-0-	-0-
2021-2025	5,815,787	1,098,121	-0-	-0-
2026-2030	7,075,951	361,459	-0-	-0-
	<u>\$ 21,601,871</u>	<u>\$ 6,265,316</u>	<u>\$ 949,338</u>	<u>\$ 92,229</u>

8. NET PATIENT SERVICE REVENUE

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

	<u>2010</u>	<u>2009</u>
Inpatient services	\$ 60,635,118	\$ 61,865,045
Outpatient services	125,306,759	119,715,429
Gross patient service revenue	185,941,877	181,580,474
Contractual allowances	88,187,542	84,061,139
Bad debts	7,194,839	7,765,015
Charity care	3,174,101	2,885,883
Deductions from revenue	<u>98,556,482</u>	<u>94,712,037</u>
Net patient service revenue	<u>\$ 87,385,395</u>	<u>\$ 86,868,437</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital participates in the Indiana Upper Payment Limit Program (UPL) reimbursement program. The Hospital had net revenue of approximately \$2,100,000 and \$2,300,000 for DSH in 2010 and 2009, respectively. This program is a Federal program administered by the state.

9. PENSION PLANS

Plan Description

The Hospital has a defined contribution pension 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 the financial statements and required supplementary information of the plan.

Funding Policy

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

The Hospital amended its pension plan in July of 2010. Under the old plan, for employees hired before July 1, 2003 the Hospital contributed 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998. For employees hired on or after July 1, 2003, their pension rate was 6% on all earnings. Under the new plan, the Hospital contributes 4% of an eligible employee's wages and matches 50% of an employee's contribution to the plan up to 2% of their wages. Hospital contributions to the plan for 2010 and 2009 were approximately \$1,908,000 and \$2,519,000, respectively.

10. SPLIT-DOLLAR LIFE INSURANCE POLICY

The Hospital funded \$2,000,000 in premiums towards a Split-Dollar Life Insurance Agreement for a key employee that is recorded in Other Assets. The Hospital is the sole and absolute owner of the related Life Insurance Policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the Retirement Date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An annual expense is recorded for the death benefit and the salary continuation components of the agreement.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The employee covered by this agreement discontinued employment in 2011. Management intends to use this vehicle to fund a benefit for the employee's replacement.

11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage starting at a specific level of \$200,000 per individual with a specific lifetime maximum reimbursement per covered person of \$800,000. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$5,499,000 and \$5,095,000 for the years ended December 31, 2010 and 2009, respectively.

12. NET ASSETS RESTRICTED BY DONOR

Net assets restricted by donor of \$925,991 and \$832,524 at December 31, 2010 and 2009, respectively; consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

13. MALPRACTICE INSURANCE

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. The 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.

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

14. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor agreements. The mix of receivables and gross patient service revenues from patients and third-party payors for 2010 and 2009 was as follows:

	Receivables		Revenues	
	2010	2009	2010	2009
Self pay	24%	25%	5%	7%
Medicare and Medicaid	42%	43%	62%	59%
Other commercial	34%	32%	33%	34%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2010

ASSETS	<u>Hospital</u>	<u>Foundation</u>	<u>Diversified Management Corporation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets					
Cash and cash equivalents	\$ 4,869,455	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,010,538
Patient accounts receivable, net	8,036,754	-0-	2,182,247	-0-	10,219,001
Supplies and other current assets	1,001,510	97,220	699,358	(77,212)	1,720,876
Due from related parties	12,224,907	-0-	540,176	(12,765,083)	-0-
Current portion of assets whose use is limited	707,465	-0-	-0-	-0-	707,465
Total current assets	<u>26,840,091</u>	<u>1,327,842</u>	<u>5,332,242</u>	<u>(12,842,295)</u>	<u>20,657,880</u>
Investments	-0-	15,757,192	-0-	-0-	15,757,192
Assets whose use is limited					
Internally designated	16,935,251	-0-	-0-	-0-	16,935,251
By donor - expendable - for capital acquisition	-0-	925,991	-0-	-0-	925,991
	<u>16,935,251</u>	<u>925,991</u>	<u>-</u>	<u>-</u>	<u>17,861,242</u>
Less current portion	707,465	-0-	-0-	-0-	707,465
Total assets whose use is limited	<u>16,227,786</u>	<u>925,991</u>	<u>-0-</u>	<u>-0-</u>	<u>17,153,777</u>
Capital assets, net	23,039,308	16,778,584	134,219	-0-	39,952,111
Other assets	6,697,135	92,954	499,294	(1,837,202)	5,452,181
Total assets	<u>\$ 72,804,320</u>	<u>\$ 34,882,563</u>	<u>\$ 5,965,755</u>	<u>\$ (14,679,497)</u>	<u>\$ 98,973,141</u>

See Report of Independent Auditors on Page 1 and 2.

HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2010

LIABILITIES AND NET ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 707,465	\$ 251,501	\$ 3,807	\$ -0-	\$ 962,773
Accounts payable and accrued expenses	2,072,267	201,219	1,778,353	(190,226)	3,861,613
Accrued wages and related liabilities	3,872,336	-0-	-0-	-0-	3,872,336
Estimated third-party settlements	1,967,255	-0-	-0-	-0-	1,967,255
Due to related parties	379,660	495,269	13,208,553	(14,083,482)	-0-
Total current liabilities	8,998,983	947,989	14,990,713	(14,273,708)	10,663,977
Other long-term liabilities	405,789	-0-	-0-	(405,789)	-0-
Long-term debt, net of current portion	14,278,052	7,306,441	3,943	-0-	21,588,436
Total liabilities	23,682,824	8,254,430	14,994,656	(14,679,497)	32,252,413
Net assets					
Unrestricted	24,132,454	16,481,500	(9,155,370)	-0-	31,458,584
Invested in capital assets, net of related debt	8,053,791	9,220,642	126,469	-0-	17,400,902
Restricted					
Expendable - funded depreciation	16,935,251	-0-	-0-	-0-	16,935,251
By donor - expendable - for capital acquisition	-0-	925,991	-0-	-0-	925,991
Total net assets	49,121,496	26,628,133	(9,028,901)	-0-	66,720,728
Total liabilities and net assets	\$ 72,804,320	\$ 34,882,563	\$ 5,965,755	\$ (14,679,497)	\$ 98,973,141

See Report of Independent Auditors on Page 1 and 2.

HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 65,157,848	\$ 1,235,485	\$ 23,967,621	\$ (2,975,559)	\$ 87,385,395
Other revenue	2,767,158	4,112,806	9,642	(3,090,420)	3,799,186
Total revenue	<u>67,925,006</u>	<u>5,348,291</u>	<u>23,977,263</u>	<u>(6,065,979)</u>	<u>91,184,581</u>
Operating expenses					
Salaries and benefits	39,268,191	1,178,295	14,501,835	(1,110,741)	53,837,580
Medical professional fees	1,393,342	-0-	1,930,238		3,323,580
Other professional fees	5,477,877	265,450	1,700,300	(136,247)	7,307,380
Medical supplies and drugs	8,102,472	-0-	7,496,758	(1,894,546)	13,704,684
Other supplies	962,637	80,982	-0-	-0-	1,043,619
Depreciation and amortization	4,048,913	1,008,366	70,610	-0-	5,127,889
Utilities	1,194,947	310,170	127,581	-0-	1,632,698
Rent	2,082,231	-0-	462,013	(1,683,375)	860,869
Other	3,199,267	1,360,133	2,674,519	(1,241,070)	5,992,849
Total expenses	<u>65,729,877</u>	<u>4,203,396</u>	<u>28,963,854</u>	<u>(6,065,979)</u>	<u>92,831,148</u>
Operating income (loss)	2,195,129	1,144,895	(4,986,591)	-0-	(1,646,567)
Nonoperating income (expense)					
Investment income	1,813,738	1,832,853	80,460	(126,634)	3,600,417
Interest expense	(405,821)	(165,525)	(47,435)	126,634	(492,147)
Other nonoperating	14,420	124,802	-0-	-0-	139,222
Total nonoperating income (expense)	<u>1,422,337</u>	<u>1,792,130</u>	<u>33,025</u>	<u>-0-</u>	<u>3,247,492</u>
Change in net assets	3,617,466	2,937,025	(4,953,566)	-0-	1,600,925
Net assets beginning of year	45,504,030	23,691,108	(4,075,335)	-0-	65,119,803
Net assets end of year	<u>\$ 49,121,496</u>	<u>\$ 26,628,133</u>	<u>\$ (9,028,901)</u>	<u>\$ -0-</u>	<u>\$ 66,720,728</u>

See Report of Independent Auditors on Page 1 and 2.

HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 64,310,231	\$ 1,235,485	\$ 24,754,073	\$ (2,975,559)	\$ 87,324,230
Cash paid to employees for wages and benefits	(39,243,724)	(1,178,295)	(14,501,835)	1,110,741	(53,813,113)
Cash paid to vendors for goods and services	(26,846,208)	(2,037,916)	(10,376,506)	5,379,982	(33,880,648)
Other operating receipts, net	2,981,045	4,541,033	9,642	(3,135,921)	4,395,799
Net cash flows from operating activities	1,201,344	2,560,307	(114,626)	379,243	4,026,268
Cash flows from noncapital financing activities					
Other nonoperating	14,420	124,802	-0-	-0-	139,222
Net cash flows from noncapital financing activities	14,420	124,802	-0-	-0-	139,222
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(1,907,663)	(361,998)	(44,330)	-0-	(2,313,991)
Interest on long-term debt	(405,821)	(165,525)	(47,435)	126,634	(492,147)
Payment of bond issuance costs	(67,504)	(41,241)	-0-	-0-	(108,745)
Principal payments on long-term debt, net	(140,244)	(310,779)	(3,678)	-0-	(454,701)
Net cash flows from capital and related financing activities	(2,521,232)	(879,543)	(95,443)	126,634	(3,369,584)
Cash flows from investing activities					
Investment income	1,813,738	1,832,853	80,460	(126,634)	3,600,417
Change in other assets, net	(111,957)	(36,349)	379,242	(379,243)	(148,307)
Change in assets whose use is limited - held by Trustee, net	307,435	-0-	-0-	-0-	307,435
Change in assets whose use is limited - internally designated and investments, net	(7,106,850)	(3,410,883)	-0-	-0-	(10,517,733)
Change in assets whose use is limited - restricted by donor, net	-0-	(93,467)	-0-	-0-	(93,467)
Net cash flows from investing activities	(5,097,634)	(1,707,846)	459,702	(505,877)	(6,851,655)
Net change in cash and cash equivalents	(6,403,102)	97,720	249,633	-0-	(6,055,749)
Cash and cash equivalents					
Beginning of year	11,450,784	1,132,902	1,660,828	-0-	14,244,514
End of year	\$ 5,047,682	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,188,765

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 2,195,129	\$ 1,144,895	\$ (4,986,591)	\$ -0-	\$ (1,646,567)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	4,048,913	1,008,366	70,610	-0-	5,127,889
Bad debts	7,194,839	-0-	925,082	-0-	8,119,921
Loss on disposal	213,887	-0-	-0-	-0-	213,887
Capital project abandoned	-0-	60,031	-0-	-0-	60,031
Changes in assets and liabilities:					
Patient accounts receivable	(8,347,939)	-0-	(138,630)	-0-	(8,486,569)
Supplies and other current assets	(131,827)	37,979	(140,477)	(23,068)	(257,393)
Accounts payable and accrued expenses	523,275	(59,160)	224,358	68,569	757,042
Accrued salaries and related liabilities	24,467	-0-	-0-	-0-	24,467
Other long-term liabilities	(571,166)	-0-	-0-	379,243	(191,923)
Due from (to) related parties	(4,253,717)	368,196	3,931,022	(45,501)	-0-
Estimated third-party settlements	305,483	-0-	-0-	-0-	305,483
Net cash flows from operating activities	\$ 1,201,344	\$ 2,560,307	\$ (114,626)	\$ 379,243	\$ 4,026,268
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 4,869,455	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,010,538
In assets whose use is limited - internally designated	178,227	-0-	-0-	-0-	178,227
Total cash and cash equivalents	\$ 5,047,682	\$ 1,230,622	\$ 1,910,461	\$ -0-	\$ 8,188,765

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2010 AND 2009

	Hospital 2010	NCFP 2010	NCP 2010	Total 2010	Total 2009	Change
Operating revenue						
Net patient service revenue	\$ 62,271,319	\$ 1,554,235	\$ 1,332,294	\$ 65,157,848	\$ 64,555,876	\$ 601,972
Other revenue	2,267,195	164,199	335,764	2,767,158	3,026,759	(259,601)
Total revenue	64,538,514	1,718,434	1,668,058	67,925,006	67,582,635	342,371
Operating expenses						
Salaries and benefits	35,021,880	2,426,758	1,819,553	39,268,191	40,372,883	(1,104,692)
Medical professional fees	1,380,405	12,937	-0-	1,393,342	1,299,653	93,689
Other professional fees	5,391,191	3,636	83,050	5,477,877	4,698,482	779,395
Medical supplies and drugs	7,898,207	78,995	125,270	8,102,472	7,641,340	461,132
Other supplies	926,813	26,666	9,158	962,637	951,031	11,606
Depreciation and amortization	3,953,874	95,039	-0-	4,048,913	3,985,925	62,988
Utilities	1,163,681	10,527	20,739	1,194,947	1,349,186	(154,239)
Rent	1,564,206	444,714	73,311	2,082,231	2,050,994	31,237
Other	3,100,333	41,284	57,650	3,199,267	3,308,436	(109,169)
Total expenses	60,400,590	3,140,556	2,188,731	65,729,877	65,657,930	71,947
Operating income (loss)	4,137,924	(1,422,122)	(520,673)	2,195,129	1,924,705	270,424
Nonoperating income (expense)						
Investment income	1,813,527	-0-	211	1,813,738	1,284,326	529,412
Interest expense	(405,821)	-0-	-0-	(405,821)	(719,757)	313,936
Other nonoperating	14,307	220	(107)	14,420	179,126	(164,706)
Total nonoperating income (expense)	1,422,013	220	104	1,422,337	743,695	678,642
 Change in net assets	 \$ 5,559,937	 \$ (1,421,902)	 \$ (520,569)	 \$ 3,617,466	 \$ 2,668,400	 \$ 949,066

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2009 AND 2008

	Hospital 2009	NCFP 2009	NCP 2009	Total 2009	Total 2008	Change
Operating revenue						
Net patient service revenue	\$ 61,736,298	\$ 1,694,361	\$ 1,125,217	\$ 64,555,876	\$ 67,321,002	\$ 8,100,537
Other revenue	2,293,622	261,015	472,122	3,026,759	3,117,832	404,701
Total revenue	64,029,920	1,955,376	1,597,339	67,582,635	70,438,834	8,505,238
Operating expenses						
Salaries and benefits	36,061,473	2,509,849	1,801,561	40,372,883	39,301,790	775,355
Medical professional fees	1,284,145	15,508	-0-	1,299,653	1,474,499	366,609
Other professional fees	4,609,996	1,858	86,628	4,698,482	3,810,530	503,443
Medical supplies and drugs	7,438,674	81,988	120,678	7,641,340	7,736,814	998,911
Other supplies	922,610	24,072	4,349	951,031	863,072	110,249
Depreciation and amortization	3,893,867	92,058	-0-	3,985,925	4,227,594	(253,754)
Utilities	1,324,421	7,700	17,065	1,349,186	1,465,464	64,915
Rent	1,574,252	403,788	72,954	2,050,994	1,960,355	241,256
Other	3,205,417	47,354	55,665	3,308,436	3,532,481	170,993
Total expenses	60,314,855	3,184,175	2,158,900	65,657,930	64,372,599	2,977,977
Operating income (loss)	3,715,065	(1,228,799)	(561,561)	1,924,705	6,066,235	5,527,261
Nonoperating income (expense)						
Investment income (loss)	1,284,009	-0-	317	1,284,326	(2,221,785)	(3,219,347)
Interest expense	(719,757)	-0-	-0-	(719,757)	(891,094)	(16,802)
Other nonoperating	178,987	443	(304)	179,126	148,087	18,946
Total nonoperating income (expense)	743,239	443	13	743,695	(2,964,792)	(3,217,203)
 Change in net assets	 \$ 4,458,304	 \$ (1,228,356)	 \$ (561,548)	 \$ 2,668,400	 \$ 3,101,443	 \$ 2,310,058

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2009

ASSETS	<u>Hospital</u>	<u>Foundation</u>	<u>Diversified Management Corporation</u>	<u>Eliminations</u>	<u>Total</u>
Current assets					
Cash and cash equivalents	\$ 8,367,485	\$ 796,671	\$ 1,660,828	\$ -0-	\$ 10,824,984
Restricted cash equivalents	-0-	336,231	-0-	-0-	336,231
Patient accounts receivable, net	6,883,654	-0-	2,968,699	-0-	9,852,353
Supplies and other current assets	869,683	135,199	558,881	(100,280)	1,463,483
Due from related parties	7,946,797	-0-	543,468	(8,490,265)	-0-
Current portion of assets whose use is limited	92,486	-0-	-0-	-0-	92,486
Total current assets	<u>24,160,105</u>	<u>1,268,101</u>	<u>5,731,876</u>	<u>(8,590,545)</u>	<u>22,569,537</u>
Investments	973,000	12,309,961	-0-	-0-	13,282,961
Assets whose use is limited					
Internally designated	11,682,263	-0-	-0-	-0-	11,682,263
Held by trustee	390,635	-0-	-0-	-0-	390,635
By donor - expendable - for capital acquisition	-0-	832,524	-0-	-0-	832,524
	<u>12,072,898</u>	<u>832,524</u>	<u>-0-</u>	<u>-0-</u>	<u>12,905,422</u>
Less current portion	92,486	-0-	-0-	-0-	92,486
Total assets whose use is limited	<u>11,980,412</u>	<u>832,524</u>	<u>-0-</u>	<u>-0-</u>	<u>12,812,936</u>
Capital assets, net	24,654,154	17,480,090	133,166	-0-	42,267,410
Other assets	<u>6,557,901</u>	<u>56,605</u>	<u>905,869</u>	<u>(2,216,445)</u>	<u>5,303,930</u>
Total assets	<u>\$ 68,325,572</u>	<u>\$ 31,947,281</u>	<u>\$ 6,770,911</u>	<u>\$ (10,806,990)</u>	<u>\$ 96,236,774</u>

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2009

LIABILITIES AND NET ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 92,486	\$ 310,779	\$ 3,658	\$ -0-	\$ 406,923
Accounts payable and accrued expenses	1,548,992	260,379	1,553,995	(258,795)	3,104,571
Accrued wages and related liabilities	3,847,869	-0-	-0-	-0-	3,847,869
Estimated third-party settlements	1,661,772	-0-	-0-	-0-	1,661,772
Due to related parties	355,267	127,073	9,280,823	(9,763,163)	-0-
Total current liabilities	7,506,386	698,231	10,838,476	(10,021,958)	9,021,135
Other long-term liabilities	976,955	-0-	-0-	(785,032)	191,923
Long-term debt, net of current portion	14,338,201	7,557,942	7,770	-0-	21,903,913
Total liabilities	22,821,542	8,256,173	10,846,246	(10,806,990)	31,116,971
Net assets					
Unrestricted	23,207,665	13,247,215	(4,197,073)	-0-	32,257,807
Invested in capital assets, net of related debt	10,223,467	9,611,369	121,738	-0-	19,956,574
Restricted					
Expendable - debt service	390,635	-0-	-0-	-0-	390,635
Expendable - funded depreciation	11,682,263	-0-	-0-	-0-	11,682,263
By donor - expendable - for capital acquisition	-0-	832,524	-0-	-0-	832,524
Total net assets	45,504,030	23,691,108	(4,075,335)	-0-	65,119,803
Total liabilities and net assets	\$ 68,325,572	\$ 31,947,281	\$ 6,770,911	\$ (10,806,990)	\$ 96,236,774

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 64,555,876	\$ 1,340,460	\$ 23,749,616	\$ (2,777,515)	\$ 86,868,437
Other revenue	3,026,759	4,203,449	-0-	(3,096,707)	4,133,501
Total revenue	<u>67,582,635</u>	<u>5,543,909</u>	<u>23,749,616</u>	<u>(5,874,222)</u>	<u>91,001,938</u>
Operating expenses					
Salaries and benefits	40,372,883	-0-	12,880,372	(1,030,965)	52,222,290
Medical professional fees	1,299,653	-0-	1,788,195	-0-	3,087,848
Other professional fees	4,698,482	-0-	1,766,092	(96,300)	6,368,274
Medical supplies and drugs	7,641,340	-0-	7,576,780	(1,815,089)	13,403,031
Other supplies	951,031	-0-	-0-	-0-	951,031
Depreciation and amortization	3,985,925	1,111,616	121,073	-0-	5,218,614
Utilities	1,349,186	-0-	98,929	-0-	1,448,115
Rent	2,050,994	-0-	470,896	(1,568,541)	953,349
Other	3,308,436	3,231,779	2,179,106	(1,363,327)	7,355,994
Total expenses	<u>65,657,930</u>	<u>4,343,395</u>	<u>26,881,443</u>	<u>(5,874,222)</u>	<u>91,008,546</u>
Operating income (loss)	1,924,705	1,200,514	(3,131,827)	-0-	(6,608)
Nonoperating income (expense)					
Investment income	1,284,326	2,522,231	104,008	(150,145)	3,760,420
Interest expense	(719,757)	(419,724)	(47,953)	150,145	(1,037,289)
Other nonoperating	179,126	75,805	(3,331)	-0-	251,600
Total nonoperating income (expense)	<u>743,695</u>	<u>2,178,312</u>	<u>52,724</u>	<u>-0-</u>	<u>2,974,731</u>
Change in net assets	2,668,400	3,378,826	(3,079,103)	-0-	2,968,123
Net assets beginning of year	42,835,630	20,312,282	(996,232)	-0-	62,151,680
Net assets end of year	<u>\$ 45,504,030</u>	<u>\$ 23,691,108</u>	<u>\$ (4,075,335)</u>	<u>\$ -0-</u>	<u>\$ 65,119,803</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 66,129,154	\$ 1,340,460	\$ 23,614,408	\$ (2,777,515)	\$ 88,306,507
Cash paid to employees for wages and benefits	(40,099,531)	-0-	(12,880,372)	1,030,965	(51,948,938)
Cash paid to vendors for goods and services	(26,165,098)	(3,278,764)	(10,819,277)	5,327,436	(34,935,703)
Other operating receipts, net	3,028,876	4,206,194	-0-	(3,242,790)	3,992,280
Net cash flows from operating activities	2,893,401	2,267,890	(85,241)	338,096	5,414,146
Cash flows from noncapital financing activities					
Other nonoperating	179,126	75,805	(3,331)	-0-	251,600
Net cash flows from noncapital financing activities	179,126	75,805	(3,331)	-0-	251,600
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(1,419,850)	(5,687)	(26,865)	-0-	(1,452,402)
Interest on long-term debt	(719,757)	(419,724)	(47,953)	150,145	(1,037,289)
Payment of bond issuance costs	(105,124)	(56,605)	-0-	-0-	(161,729)
Proceeds received from loan	14,036,179	7,557,941	-0-	-0-	21,594,120
Principal payments on long-term debt, net	(14,218,637)	(8,186,918)	(19,851)	16,336	(22,409,070)
Net cash flows from capital and related financing activities	(2,427,189)	(1,110,993)	(94,669)	166,481	(3,466,370)
Cash flows from investing activities					
Investment income	1,284,326	2,522,231	104,008	(150,145)	3,760,420
Change in other assets, net	(294,254)	22,805	357,765	(329,432)	(243,116)
Change in assets whose use is limited - held by Trustee, net	(3,724,224)	-0-	-0-	-0-	(3,724,224)
Change in assets whose use is limited - internally designated and investments, net	5,370,128	(3,412,118)	-0-	(25,000)	1,933,010
Change in assets whose use is limited - restricted by donor, net	-0-	(49,889)	-0-	-0-	(49,889)
Net cash flows from investing activities	2,635,976	(916,971)	461,773	(504,577)	1,676,201
Net change in cash and cash equivalents	3,281,314	315,731	278,532	-0-	3,875,577
Cash and cash equivalents					
Beginning of year	8,169,470	817,171	1,382,296	-0-	10,368,937
End of year	\$ 11,450,784	\$ 1,132,902	\$ 1,660,828	\$ -0-	\$ 14,244,514

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2009

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 1,924,705	\$ 1,200,514	\$ (3,131,827)	\$ -0-	\$ (6,608)
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	3,985,925	1,111,616	121,073	-0-	5,218,614
Bad debts	7,765,015	-0-	947,449	-0-	8,712,464
Loss on disposal	2,117	-0-	-0-	-0-	2,117
Changes in assets and liabilities:					
Patient accounts receivable	(7,471,322)	-0-	(1,082,657)	-0-	(8,553,979)
Supplies and other current assets	143,108	(24,511)	(197,528)	79,296	365
Accounts payable and accrued expenses	(1,159,670)	(22,474)	(440,849)	50,451	(1,572,542)
Accrued salaries and related liabilities	273,352	-0-	-0-	-0-	273,352
Other long-term liabilities	(293,654)	-0-	-0-	354,432	60,778
Due from (to) related parties	(3,555,760)	2,745	3,699,098	(146,083)	-0-
Estimated third-party settlements	1,279,585	-0-	-0-	-0-	1,279,585
Net cash flows from operating activities	\$ 2,893,401	\$ 2,267,890	\$ (85,241)	\$ 338,096	\$ 5,414,146
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	\$ 8,367,485	\$ 1,132,902	\$ 1,660,828	\$ -0-	\$ 11,161,215
In assets whose use is limited - internally designated	3,000,099	-0-	-0-	-0-	3,000,099
In assets whose use is limited - held by Trustee	83,200	-0-	-0-	-0-	83,200
Total cash and cash equivalents	\$ 11,450,784	\$ 1,132,902	\$ 1,660,828	\$ -0-	\$ 14,244,514

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