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June 23, 2010

Board of Directors
Henry County Hospital
1000 North 16th Street
New Castle, Indiana 47362

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Henry County Hospital, as of December 31, 2009, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

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, 2009 and 2008, 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, a blended component unit, which statements reflect total assets of approximately \$31.9 million and \$29.2 million as of December 31, 2009 and 2008, respectively, and total revenues of \$5.5 million and \$5.4 million 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 \$6.7 million as of December 31, 2009 and 2008 and total revenues of \$23.7 million and \$21.7 million 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, 2009 and 2008 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.

Management's discussion and analysis, listed in the table of contents, is not a required part of the basic combined financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of expressing an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements of the Hospital. This information has been subjected to the auditing procedures applied in our audits and the audits of the other auditors, and in our opinion and the opinion of the other auditors, is fairly stated, in all material respects in relation to the combined financial statements taken as a whole.

Blue & Co., LLC

April 12, 2010

HENRY COUNTY HOSPITAL

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

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, 2009 and 2008. 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.

HENRY COUNTY HOSPITAL

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

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?"

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 \$2,968,123 or 5% in 2009 as you can see from Table 1.

Table 1: Assets, Liabilities and Net Assets:

	2009	2008
Assets		
Current assets	\$ 22,569,537	\$ 28,174,466
Capital assets, net	42,267,410	45,557,589
Other investments and assets	31,399,827	19,944,085
Total assets	<u>\$ 96,236,774</u>	<u>\$ 93,676,140</u>
Liabilities		
Debt outstanding, current and long-term	\$ 22,310,836	\$ 22,759,498
Other current and noncurrent liabilities	8,806,135	8,764,962
Total liabilities	<u>\$ 31,116,971</u>	<u>\$ 31,524,460</u>
Net assets		
Invested in capital assets, net of related debt	\$ 19,956,574	\$ 22,798,091
Restricted for debt service	390,635	157,261
Restricted expendable net assets	12,514,787	8,856,380
Unrestricted	32,257,807	30,339,948
Total net assets	<u>\$ 65,119,803</u>	<u>\$ 62,151,680</u>

There are no major shifts between 2009 and 2008, showing the stability of the Hospital and its operations.

HENRY COUNTY HOSPITAL

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

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

In 2009, the Hospital's net assets increased by \$2,968,123 or 5% as shown in Table 2.

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

	2009	2008
Operating revenues		
Net patient service revenues	\$ 86,868,437	\$ 87,882,799
Other operating revenues	4,133,501	4,117,740
Total operating revenues	91,001,938	92,000,539
Operating expenses		
Salaries and benefits	52,222,290	49,892,646
Medical supplies and drugs	13,403,031	13,438,082
Depreciation and amortization	5,218,614	5,551,546
Other operating expenses	20,164,611	18,369,787
Total operating expenses	91,008,546	87,252,061
Operating income (loss)	(6,608)	4,748,478
Non-operating revenues and expenses		
Investment income (loss)	3,760,420	(7,268,246)
Other non-operating revenues and expenses, net	(785,689)	(746,071)
Total non-operating revenues (expenses)	2,974,731	(8,014,317)
Change in net assets	2,968,123	(3,265,839)
Net assets beginning of year	62,151,680	65,417,519
Net assets end of year	\$ 65,119,803	\$ 62,151,680

	2009	2008
Cash flows from activities		
Operating	\$ 5,414,146	\$ 11,282,032
Noncapital financing	251,600	426,566
Capital and related financing	(3,304,641)	(5,457,497)
Investing	1,514,472	(2,344,086)
	\$ 3,875,577	\$ 3,907,015

HENRY COUNTY HOSPITAL

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

OPERATING INCOME

The ongoing economic problems, loss of jobs and increasing high deductibles and co-payments on health insurance plans continue to negatively affect HCH as well as hospitals throughout the U.S. As predicted in our 2008 report, our market continued to soften or sustain minimal growth in 2009 for most areas. The significant increases in deliveries, mammography, home health and hospice visits are exceptions.

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 will bring stability to the Hospital's long-term debt position after two years of volatility.

In addition, the State of Indiana placed a temporary reduction on Medicaid reimbursement to hospitals that has had a negative impact on reimbursement.

To help mitigate these continuing financial uncertainties, HCH is proactive in reducing expenses without compromising care. LEAN continues to be a cornerstone of our efforts to streamline workflow and reduce expenses.

The Central Business Office continues to look for ways to enhance collections while still adhering to our charity care policies. ClaimAid, a new program started in late 2008, achieved Medicaid eligibility for 265 patients, which involved approximately 460 hospital claims. While the Hospital's charity care program is important, it helps just one time and primarily for hospital care. ClaimAid helps community members obtain coverage for Medicaid or other similar programs that provide for their continuing health care needs as well as payment to the Hospital for our services.

Volume changes for the Hospital for 2009 are as follows:

<u>Service</u>	<u>Volume Change 2008-2009</u>
Admissions (excluding newborns)	-3.42%
Emergency Department Visits	+3.19%
Outpatient Registrations	+0.21%
Deliveries	+17.53%
Inpatient Surgeries	-7.23%
Outpatient Surgeries	+0.19%
CT Scans	-1.83%
Nuclear Scans	-5.71%
MRI Scans	-4.61%
Mammography	+23.78%
Home Health	+11.31%
Hospice	+42.37%

HENRY COUNTY HOSPITAL

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

Wound Care	-17.18%
Sleep Center	+1.45%
Physical Therapy	+5.63%

BAD DEBT CONTINUES TO RISE

While our charity care write offs decreased from 2009 to 2008 largely due to the success of ClaimAid in helping eligible patients receive Medicaid coverage, we had an increase of 233% in bad debt primarily related to increasing unemployment and the loss of health insurance.

These increases further point to the need to expand revenue sources and reduce expenses in order to maintain an adequate operating margin.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2005	\$2,513,837	\$3,041,023	\$5,554,860	
2006	\$2,381,820	\$4,909,890	\$7,291,710	31.26%
2007	\$4,289,252	\$5,296,468	\$9,585,720	31.46%
2008	\$3,331,450	\$7,236,232	\$10,567,682	10.24%
2009	\$7,765,015	\$2,885,882	\$10,650,897	.79%

STRATEGIC PLANNING AND PHYSICIAN RECRUITMENT

While we are closely watching Washington and the potential health care reform initiatives, we know that regardless of what the politicians decide there are major changes underway that will affect how we care for patients and how we are paid. While no definitive programs have emerged, we are developing operational structures to prepare for initiatives such as improved chronic care, bundled payments and payment incentives structured to discourage improper site of care, excessive length of stay, preventable admissions and avoidable readmissions.

We continue to focus on physician recruitment both for primary and specialty care. Because of the continuing and future expected shortage of primary care physicians, we also are expanding our use of Nurse Practitioners and Physician Assistants. Our Hospitalist program, which started in 2008, provides an option for primary care physicians who only want to have an office-based practice.

HENRY COUNTY HOSPITAL

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

A third orthopedic surgeon and a physiatrist/pain management specialist joined Henry County Center for Orthopedic Surgery and Sports Medicine, bringing expanded expertise in shoulder surgeries and interventional pain management. Their recruitment has had a significant positive impact on increasing orthopedic surgical volumes and reducing the time it takes for new patients to be seen. A new family medicine physician will join New Castle Family Physicians in April 2010. We also recruited a new board certified internist for New Castle Clinic and continue to recruit for family medicine, pediatrics and internal medicine.

MARKETING

We continue to target marketing efforts on our primary service areas. Advertising in 2009 featured patient stories highlighting the care they received at HCH and new physician services. A special emphasis was placed on cardiology to continue to publicize our range of cardiology services.

A Physician Referral line established in August has seen considerable success in attracting new primary care patients. To help increase easy patient access, Henry County Urgent Care expanded hours beginning in January 2010 and physician offices have worked to expand their appointment schedules.

The Hospital continues to work on increasing market share in western Wayne County and areas of Henry County outside of New Castle. 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.

We are expanding our outreach in Rush County. In March 2010, our three orthopedic surgeons began seeing patients in Rushville in a cooperative program with Rush Memorial Hospital. General surgery and gynecology services also are offered at St. Vincent Northeast Medical Center in Fishers.

A consumer telephone survey was conducted for HCH by national research firm HealthStream in December 2008. Our primary focus was New Castle and southern and northern Henry County. The survey showed that in this core area Henry County Hospital is most preferred overall and the brand leader by a statistically significant margin. In addition, we also interviewed residents of Hagerstown, Cambridge City, Knightstown, Middletown and southern Delaware County. Hospital teams were formed to evaluate the survey results and identify improvement opportunities.

HENRY COUNTY HOSPITAL

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

HENRY COUNTY HOSPITAL MEDICAL GROUP

Henry County Hospital Medical Group (HCMG) employs 34 physicians in 10 specialties including anesthesiology, cardiology, internal medicine, obstetrics/gynecology, orthopedics, physiatry, pain management, general surgery, pediatrics and radiology.

Our physicians are 97% board certified/board eligible. Susan Benson, MD became board certified in obstetrics/gynecology in 2009 and Lisa Richmond, MD became board certified in pediatrics in 2010. Matthew Barrett, MD is now a Fellow of the American College of Surgeons.

We continue to expand the use of Electronic Health Records in our physician offices and hope to have Electronic Health Records installed by the end of 2010 in the majority of the offices. New Castle Clinic and New Castle Family Physicians are fully implemented with NextGen EHR and four physicians at New Castle Clinic became fully operational with NextGen EHR in January 2010.

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 also is being utilized in physician offices to improve workflow and patient satisfaction and prepare for the implementation of NextGen EHR in the physician offices. LEAN events were held with New Castle Family Physicians, New Castle Clinic and Henry County Center for Orthopedic Surgery & Sports Medicine.

New Castle Family Physicians participated in Diabetes Measurements 1, 2, 3 for the 2009 CMS Physician Quality Reporting Initiative (PQRI). They are one of the early practice leaders in this initiative.

ELECTRONIC HEALTH RECORDS USE AND IMPACT ACCELERATES

We are rapidly moving towards full implementation of Soarian™, our hospital-based Electronic Health Record. In March 2010, the Hospital went "paper light" with many documents now only captured and viewed in Soarian™. We have appointed a physician as Director of Medical Informatics to assist physicians in this final adoption stage and anticipate implementation of Computerized Physician Order Entry by the end of this year. The implementation of NextGen EHR in our employed physician practices also is accelerating with a goal of completion for the majority of our seven office-based practices by the end of this year. We have joined the Indiana Health Information Exchange, begun the adoption of e-prescribing and completed the federal grant registration process to be eligible for ARRA federal grants.

HENRY COUNTY HOSPITAL

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

REVENUE ENHANCEMENT ALSO LOOKS TO DECREASE EXPENSES

HCH began LEAN in 2006, and it has become an integral part of the operational system in the Hospital and in employed physician practices.

In 2009, nine Rapid Improvement Events were held throughout the Hospital and in physician offices to streamline workflow, improve efficiency and reduce costs. Participants included:

- Imaging
- Nursing
- Surgery
- Emergency Department and Patient Care Unit
- New Castle Family Physicians
- Henry County Center for Orthopedic Surgery & Sports Medicine
- New Castle Clinic

Four Value Stream Mapping Events were held for Outpatient Services, Inpatient Services, Surgery and Clinical Information Systems to help determine what processes should be targeted for a Rapid Improvement Event. Surgery, PCU, Administration and Maintenance participated in a 6 Sigma event.

IMAGING NOW ALL DIGITAL AND PACS ACCESSIBLE

New digital mammography equipment was installed in the fall of 2009 and accreditation has been received from the American College of Radiology (ACR). In 2010, Imaging will pursue ACR accreditation for CT, MRI and nuclear medicine. In view of the recent concerns about radiation safety, we are reviewing our procedures, which currently include using a physicist who checks calibration and attends the Radiation Safety meetings.

As indicated earlier in this report, outpatient Imaging studies including MRI, CT, and Nuclear Medicine reported a volume drop in 2009. The nuclear medicine decline is most likely attributed to the shortage of radiolite worldwide. We think that the outpatient decrease in the other areas is due to a combination of financial pressures caused by rising unemployment, higher co-pays and the encouragement by insurance companies for patients to use lower-cost free-standing imaging centers.

We altered Imaging scheduling in late 2009 and early 2010 to open additional appointment times, offer more convenient hours and provide same day service when needed. We hope this will help reverse the downward outpatient imaging trend.

HENRY COUNTY HOSPITAL

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

A new agreement with Summit Radiology has improved turnaround time for imaging scans conducted overnight and on weekends. In addition, when needed, Summit also will provide reads in PET and specialized CT and MRI scans. All Summit reports are final reads in Soarian™, which was not available with our previous contract imaging group.

PATIENT SATISFACTION EMPHASIS CONTINUES

The HCAHPS measures patients' satisfaction with their hospital experience. For the period April 2008 through March 2009, 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 69% and a national average of 65%. Sixty-nine percent indicated they would "definitely recommend" HCH compared to 71% for the state average and 68% for the national average.

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.

Our average scores in 2009 were: Inpatient 86%, Emergency Department 65% and Outpatient 61%.

The Inpatient average dropped 4%, the Emergency Department average dropped by 11%, and the Outpatient average improved by 8% from our 2008 scores. The Inpatient Satisfaction and ER Satisfaction Committees continue to meet to discuss improvements. The ER Satisfaction Committee focused on implementing education of employee standards of behavior hospital-wide that would lead to improved customer satisfaction.

The Imaging Department focused efforts on improving communication about delays and addressing concerns and complaints. They have utilized the service recovery program more often and are tracking and trending reasons for delay and other concerns. They have implemented a new process for checking all orders are complete one day prior to the scheduled test, and a reminder phone call to patients two days prior to testing.

Rehabilitation Services has focused on getting initial patient assessments completed within 24-48 hours and has extended their hours to later in the evening to accommodate patient requests. Lab has focused on employee behaviors and reviewing orders and specimens each day to be sure discrepancies can be caught timely and reducing the need for redrawing the blood.

HENRY COUNTY HOSPITAL

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

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 2008 with full accreditation received. Our next HFAP triennial survey is due in May 2011. New standards are currently being reviewed and new procedures for compliance developed. The Indiana State Department of Health (ISDH) did not conduct a survey in 2009. Indiana has an Adverse Event Reporting program and HCH had one reportable adverse event in 2009.

HCH is participating in numerous local and national patient safety measurements. Our goal in 2009 was to obtain 98% or above for Centers for Medicare & Medicaid Services (CMS) measures for heart failure, AMI (heart attack), surgical complication improvement program (SCIP) and pneumonia. In the report for the 3rd quarter of 2009, all but three measures were above the 98th percentile, with only one measure being below 90%, initial antibiotic received within 6 hours for pneumonia. 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%.

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 2009, we had a 6.6% reduction in the number of incidents. Department Directors are much more confident in their investigations of incidents and using the information for improvement. Sharing information with SHO has enabled us to identify additional ideas for improvement.

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

HENRY COUNTY HOSPITAL

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

The Hospital participated with Indiana Hospital Association Patient Safety Center Culture of Patient Safety and, as requested by Health Care Excel, we completed the Hospital Leadership and Quality Assessment Tool (HLQAT). The findings can guide us in improving our quality culture.

The Surgery Department has taken actions to clearly define roles among the surgical team to enhance communication, enhanced the use of their whiteboard to use as a checklist and communication center for all staff and expanded their checklist to include evidence-based practices recommended by the World Health Organization (WHO).

Standard Care Bundles have been implemented to prevent bloodstream infections and ventilator associated pneumonia. Henry County Hospital had 199 patients with central lines in 2009 with none of them acquiring infections. There have been no ventilator associated pneumonia cases since 3rd quarter, 2005.

Henry County Home Care was selected as one of the 2009 HomeCare elite; the annual compilation of the most successful home health care providers in the U.S. Located in New Castle and part of Henry County Hospital, the home health agency is among the top 25% of providers in the country in quality outcomes, quality improvement and financial performance measures.

PHARMACY UPGRADES ENHANCE PATIENT SAFETY

The Medication Administration Check (MAC) Pharmacy System was installed in 2009. This multidisciplinary project (Pharmacy, Information Systems, Nursing) gives all practitioners the ability to see the same medication administration record and decreases communication errors. MAC also gives providers the ability to scan medications (bar codes) at the bedside. This permits a final electronic check in medication administration that was lacking before installation of MAC.

In 2010, pharmacy staff will work on Computerized Physician Order Entry and e-prescribing in employed physician offices and the Emergency Department. Both projects have the potential to decrease medication errors and promote patient safety.

QS1 was installed in our three outpatient pharmacies located in New Castle. It allows us to transfer prescriptions among stores without transcription errors. It allows an initial scan of the prescriptions so that the pharmacist refilling the prescription can view the initial prescription. The financial component allows easier payment tracking. QS1 also contains a Point Of Sale system to help with inventory management.

HENRY COUNTY HOSPITAL

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

COMMUNITY BENEFITS

HCH provided just over \$2.6 million in community benefits in 2008, 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. Over 400 women attended the first 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 held in conjunction with the Henry County Health Department and New Castle Pediatrics.

Henry County Sports Medicine provides low-cost game coverage, injury checks and performance enhancement programs for area high schools. HCH is the county's largest employer and also contributes a significant economic impact through payroll, local purchasing when possible and employee involvement in the community.

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. We also are a clinical site for Ivy Tech's Surgical Technician program and for the School of Radiological Technology at Hancock Regional Hospital. In 2009, Butler pharmacy students interned at HCH as well as one pharmacy technician from Ivy Tech.

Each year 20-25 high school seniors spend mornings at Henry County Hospital in a variety of clinical settings through a Health Occupations program sponsored by New Castle Vocational Schools for college bound students interested in healthcare careers.

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 2009 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.

HENRY COUNTY HOSPITAL

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

In the last five years, 112 nursing and other healthcare scholarships worth \$180,645 have been awarded. Funding for the scholarships comes from the Foundation's annual Gala and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks and Ralph Bunner.

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, Henry County Hospital, 1000 North 16th Street, New Castle, Indiana 47362.

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,824,984	\$ 10,013,119
Restricted cash equivalents	336,231	310,323
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$5,365,130 in 2009 and \$3,643,609 in 2008	9,852,353	10,010,838
Supplies and other current assets	1,463,483	1,463,848
Current portion of assets whose use is limited	92,486	6,376,338
Total current assets	<u>22,569,537</u>	<u>28,174,466</u>
Investments	13,990,485	12,913,050
Assets whose use is limited		
Internally designated	11,682,263	8,073,745
Held by trustee	390,635	157,261
	<u>12,072,898</u>	<u>8,231,006</u>
Less current portion	92,486	6,376,338
Total assets whose use is limited	<u>11,980,412</u>	<u>1,854,668</u>
Capital assets, net	42,267,410	45,557,589
Other assets	5,428,930	5,176,367
Total assets	<u>\$ 96,236,774</u>	<u>\$ 93,676,140</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Current portion of long-term debt	\$ 406,923	\$ 7,121,671
Accounts payable and accrued expenses	3,104,571	4,677,113
Accrued wages and related liabilities	3,847,869	3,574,517
Estimated third-party settlements	1,661,772	382,187
Total current liabilities	<u>9,021,135</u>	<u>15,755,488</u>
Other long-term liabilities	191,923	131,145
Long-term debt, net of current portion	<u>21,903,913</u>	<u>15,637,827</u>
Total liabilities	31,116,971	31,524,460
Net assets		
Unrestricted	32,257,807	30,339,948
Invested in capital assets, net of related debt	19,956,574	22,798,091
Restricted		
Expendable - debt service	390,635	157,261
Expendable - funded depreciation	11,682,263	8,073,745
By donor - expendable - for capital acquisition	832,524	782,635
Total net assets	<u>65,119,803</u>	<u>62,151,680</u>
Total liabilities and net assets	<u>\$ 96,236,774</u>	<u>\$ 93,676,140</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenue		
Net patient service revenue	\$ 86,868,437	\$ 87,882,799
Other revenue	4,133,501	4,117,740
Total revenue	<u>91,001,938</u>	<u>92,000,539</u>
Operating expenses		
Salaries and benefits	52,222,290	49,892,646
Medical professional fees	3,087,848	3,028,477
Other professional fees	6,368,274	5,436,338
Medical supplies and drugs	13,403,031	13,438,082
Other supplies	951,031	1,163,249
Depreciation and amortization	5,218,614	5,551,546
Utilities	1,448,115	1,507,138
Rent	953,349	877,150
Other	7,355,994	6,357,435
Total expenses	<u>91,008,546</u>	<u>87,252,061</u>
Operating income (loss)	(6,608)	4,748,478
Nonoperating income		
Investment income (loss)	3,760,420	(7,268,246)
Interest expense	(1,037,289)	(1,172,637)
Other nonoperating	251,600	426,566
Total nonoperating income (expense)	<u>2,974,731</u>	<u>(8,014,317)</u>
Change in net assets	2,968,123	(3,265,839)
Net assets		
Beginning of year	62,151,680	65,417,519
End of year	<u>\$ 65,119,803</u>	<u>\$ 62,151,680</u>

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Cash received from patients and third party payors	\$ 88,306,507	\$ 88,712,140
Cash paid to employees for wages and benefits	(51,948,938)	(49,541,442)
Cash paid to vendors for goods and services	(31,379,943)	(29,423,862)
Other operating receipts, net	436,520	1,535,196
Net cash flows from operating activities	5,414,146	11,282,032
Cash flows from noncapital financing activities		
Other nonoperating	251,600	426,566
Net cash flows from noncapital financing activities	251,600	426,566
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,452,402)	(2,691,846)
Interest expense on long-term debt	(1,037,289)	(1,172,637)
Proceeds from issuance of long-term debt	14,036,179	5,908,091
Principal payments on long-term debt, net	(14,851,129)	(7,501,105)
Net cash flows from capital and related financing activities	(3,304,641)	(5,457,497)
Cash flows from investing activities		
Investment income (loss)	3,760,420	(7,268,246)
Other assets	(252,563)	(60,393)
Change in assets whose use is limited, net	(3,820,900)	604,853
Change in investments, net	1,827,515	4,379,700
Net cash flows from investing activities	1,514,472	(2,344,086)
Net change in cash and cash equivalents	3,875,577	3,907,015
Cash and cash equivalents		
Beginning of year	10,368,937	6,461,922
End of year	\$ 14,244,514	\$ 10,368,937

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

Reconciliation of operating income (loss) to net cash flows from operating activities	2009	2008
Operating income (loss)	\$ (6,608)	\$ 4,748,478
Adjustment to reconcile operating income (loss) to net cash flows from operating activities		
Depreciation and amortization	5,218,614	5,551,546
Loss on disposal of assets	2,117	300
Bad debts	7,765,015	3,331,450
Changes in assets and liabilities		
Patient accounts receivable	(7,606,530)	(2,449,810)
Supplies and other current assets	365	(285,977)
Accounts payable and accrued expenses	(1,572,542)	35,995
Accrued salaries and related liabilities	273,352	351,204
Other long-term liabilities	60,778	51,145
Estimated third-party settlements	1,279,585	(52,299)
Net cash flows from operating activities	\$ 5,414,146	\$ 11,282,032
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 11,161,215	\$ 10,323,442
In investments	3,000,099	45,495
In assets whose use is limited	83,200	-0-
Total cash and cash equivalents	\$ 14,244,514	\$ 10,368,937
Supplemental cash flows information		
Property acquired through capital lease obligations	\$ 366,289	\$ 68,678

See accompanying notes to combined financial statements.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SIGNIFICANT ACCOUNTING POLICIES

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 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, 2009 AND 2008

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 owns Henry County Urgent Care, LLC. Urgent Care, LLC operates an emergency care physician office located in a shopping center in New Castle.

DMC owns New Castle Clinic, Inc., which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2009 and 2008.

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, 2009 AND 2008

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. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2007, with differences reflected as deductions from revenue in 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, 2009 AND 2008

Net revenues from Medicare and Medicaid programs accounted for approximately 36 percent and 8 percent for the year ended 2009 and 36 percent and 6 percent for the year ended 2008.

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of cash that is readily available for use in operations. Cash paid for interest was approximately \$1,156,000 and \$1,172,000 for 2009 and 2008, respectively.

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.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value. The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the long-term debt also approximates the carrying value.

Assets Whose Use Is Limited

Assets whose use is limited consists of investments and includes assets that are trustee-held funds for the retirement of debt obligations and assets internally designated by the Board for acquisition of property and equipment and debt service.

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 2009 and 2008 was \$8,448 and \$39,914, respectively.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Capital Assets

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

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

<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

Goodwill and Intangible Assets

Goodwill totaling \$8,966,112 was recognized when DMC purchased a physician clinic during 2005. A portion of the goodwill was subsequently sold to the Hospital for a \$2,340,000, seven year, 7% note receivable to compensate DMC for the transfer of the clinic radiology department profit. The radiology department equipment was sold to the Hospital and the Hospital operates the radiology department. DMC analyzed the expected future earnings of the clinic and determined the remaining goodwill had been entirely impaired and a goodwill impairment expense of \$6,626,112 was recognized during 2005. The Hospital evaluates goodwill on an annual basis, or sooner if necessary, for potential impairment in accordance with Financial Statement Audit C (FASC).

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.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 contributors 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.

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.

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 \$2,064,203 and \$1,934,860 for 2009 and 2008, respectively.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Risk Management

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

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2009 or 2008.

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.

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 2008 have been reclassified in order to conform to the 2009 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 12, 2010.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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>2009</u>	<u>2008</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 15,629,830	\$ 14,681,976
Receivable from Medicare	5,826,481	4,479,360
Receivable from Medicaid	2,742,709	2,080,248
Total patient accounts receivable	<u>24,199,020</u>	<u>21,241,584</u>
Less contractual allowances	(8,981,537)	(7,587,137)
Less allowance for uncollectible amounts	(5,365,130)	(3,643,609)
Patient accounts receivable, net	<u>\$ 9,852,353</u>	<u>\$ 10,010,838</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 3,151,738	\$ 2,933,164
Payable to suppliers	3,104,571	4,677,113
Accrued employee health benefit claims	696,131	641,353
Total accounts payable and accrued expenses	<u>\$ 6,952,440</u>	<u>\$ 8,251,630</u>

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. During 2009, the Hospital implemented changes in the charity care policy adding a Medicaid screening process in order to capture additional reimbursement for those eligible patients. The related charges will not be considered for charity care until eligibility under Medicaid is pursued. The charity care provided during 2009 and 2008 was approximately \$2,885,883 and \$7,236,232, respectively.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Board Designated Funds

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

Trustee Held Assets

The Hospital deposited investments with a trustee, which will be utilized to provide for debt service.

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>2009</u>	<u>2008</u>
Board designated		
Funded depreciation		
Investments	\$ 2,623,059	\$ 2,079,697
Certificate of deposit	6,059,105	5,994,048
Cash and cash equivalents	3,000,099	-0-
Trustee held assets		
US government securities	307,435	157,261
Cash and cash equivalents	<u>83,200</u>	<u>-0-</u>
Total assets limited to use	<u>\$ 12,072,898</u>	<u>\$ 8,231,006</u>

5. 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, 2009 AND 2008

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, 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, 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	15,640,543	15,640,543	-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-
	<u>\$ 26,063,383</u>	<u>\$ 25,090,383</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 973,000</u>

December 31, 2008

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 157,261	\$ 157,261	\$ -0-	\$ -0-	\$ -0-
Mutual Funds	11,867,556	11,867,556	-0-	-0-	-0-
Corporate Bonds	1,000,000	-0-	-0-	-0-	1,000,000
Certificates of Deposit and Cash	8,119,239	8,119,239	-0-	-0-	-0-
	<u>\$ 21,144,056</u>	<u>\$ 20,144,056</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,000,000</u>

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, 2009 AND 2008

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 11,161,215	\$ 10,323,442
Investments	26,063,383	21,144,056
	<u>\$ 37,224,598</u>	<u>\$ 31,467,498</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 10,824,984	\$ 10,013,119
Restricted cash equivalents	336,231	310,323
Investments	13,990,485	12,913,050
Internally designated	11,682,263	8,073,745
Held by trustee for debt service	390,635	157,261
	<u>\$ 37,224,598</u>	<u>\$ 31,467,498</u>

Investment income for 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Unrealized gains (losses)	\$ 4,043,461	\$ (1,673,310)
Realized losses	(728,274)	(6,181,810)
Interest and dividends	445,233	586,874
	<u>\$ 3,760,420</u>	<u>\$ (7,268,246)</u>

6. FAIR VALUE MEASUREMENTS

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

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 are as follows:

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
US Government Securities	\$ 307,435	\$ 307,435	\$ -0-	\$ -0-
Mutual Funds	15,640,543	15,640,543	-0-	-0-
Corporate Bonds	973,000	-0-	973,000	-0-
	16,920,978	\$ 15,947,978	\$ 973,000	\$ -0-
 Certificates of deposit and cash and cash equivalents *	 9,142,405			
	\$ 26,063,383			

*Certificates of deposit are reported at contract value

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
US Government Securities	\$ 157,261	\$ 157,261	\$ -0-	\$ -0-
Mutual funds	11,867,556	11,867,556	-0-	-0-
Corporate Bonds	1,000,000	-0-	1,000,000	-0-
	13,024,817	\$ 12,024,817	\$ 1,000,000	\$ -0-
 Certificates of deposit and cash and cash equivalents *	 8,119,239			
	\$ 21,144,056			

*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.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Long term debt. The fair value of the Hospital's variable rate debt is based on current traded value. The fair value of the Hospital's fixed rate debt (including capital lease obligations) is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2009, the carrying value of the fixed rate long-term debt approximated its fair value.

7. CAPITAL ASSETS

A summary of capital assets, including assets under capital leases, as of December 31, 2009 and 2008, follows:

	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	<u>103,136,953</u>	<u>1,818,688</u>	<u>(805,386)</u>	<u>-0-</u>	<u>104,150,255</u>
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	<u>(57,579,364)</u>	<u>(5,096,082)</u>	<u>792,601</u>	<u>-0-</u>	<u>(61,882,845)</u>
Capital assets, net	<u>\$ 45,557,589</u>	<u>\$ (3,277,394)</u>	<u>\$ (12,785)</u>	<u>\$ -0-</u>	<u>\$ 42,267,410</u>

	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
Land	\$ 2,060,000	\$ 388,234	\$ -0-	\$ -0-	\$ 2,448,234
Land improvements	2,225,429	7,776	-0-	-0-	2,233,205
Buildings and improvements	55,841,696	141,819	-0-	83,560	56,067,075
Fixed equipment	14,825,529	308,606	(38,047)	-0-	15,096,088
Major equipment	25,899,183	1,463,966	(569,001)	85,481	26,879,629
Construction in progress	131,640	450,123	-0-	(169,041)	412,722
Total capital assets	<u>100,983,477</u>	<u>2,760,524</u>	<u>(607,048)</u>	<u>-0-</u>	<u>103,136,953</u>
Less accumulated depreciation:					
Land improvements	(1,782,801)	(64,612)	-0-	-0-	(1,847,413)
Buildings and improvements	(23,254,768)	(2,279,320)	-0-	-0-	(25,534,088)
Fixed equipment	(11,627,830)	(639,900)	37,265	-0-	(12,230,465)
Major equipment	(16,047,413)	(2,485,337)	565,352	-0-	(17,967,398)
Total accumulated depreciation	<u>(52,712,812)</u>	<u>(5,469,169)</u>	<u>602,617</u>	<u>-0-</u>	<u>(57,579,364)</u>
Capital assets, net	<u>\$ 48,270,665</u>	<u>\$ (2,708,645)</u>	<u>\$ (4,431)</u>	<u>\$ -0-</u>	<u>\$ 45,557,589</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. 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 have an average interest rate of 4% and are collateralized by Hospital assets.

A portion of the Series 2009 bonds were used to refund the outstanding Series 2002. 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 are considered to be defeased and the liability for those bonds and the associated trust account assets have been removed from the balance sheet. These transactions in essence created a deferred loss on the advance refunding of the 2002 bonds of \$284,086, calculated as follows:

Reacquisition price (funds required to be deposited in escrow fund to refund old bonds)	\$ 15,449,894
Net carrying amount of old bonds	15,165,808
Deferred loss on refunding	<u>\$ 284,086</u>

* Funds available to accomplish the refunding were:

Funds provided from issuance of new bonds	\$ 21,594,121
Funds provided from 2002 Bond Debt service fund	54,386
Funds used to pay off short term note to Citizens Bank	(5,927,128)
Funds used for new 2009 bond issuance costs	(271,485)
	<u>\$ 15,449,894</u>

**Net carrying amount consist of:

Principal outstanding prior to refunding	\$ 15,270,000
Unamortized bond issuance costs	(104,192)
	<u>\$ 15,165,808</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

As stated above the refinancing occurred late in December of 2009 with little interest impact; however, 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 Foundation purchased an MRI machine for \$1,518,000, which was financed with a 5 year, 4.38% loan with monthly payments of \$29,241.

DMC financed various equipment purchases with 4-7% installment loans payable in monthly or annual installments with maturity dates ranging from 2006 to 2012.

The Hospital has capital lease obligations, at varying interest rates of imputed interest of 6.08% to 7.49%, collateralized by leased equipment with cost of \$442,168 and \$205,968 as of December 31, 2009 and 2008, respectively. Accumulated depreciation on capital leases was \$395,055 and \$109,609 December 31, 2009 and 2008, respectively.

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

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

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	Balance December 31, 2007	Additional borrowings	Payments	Balance December 31, 2008	Current portion
Demand Revenue Bonds, Series 2002	\$ 16,885,000	\$ -0-	\$ 790,000	\$ 16,095,000	\$ 825,000
Demand Revenue Bonds, Series 1985 A	6,089,906	-0-	6,089,906	-0-	-0-
Note payable	-0-	5,908,091	-0-	5,908,091	5,908,091
Installment loan payable	237,466	-0-	218,648	18,818	18,818
Equipment loan	934,096	-0-	302,569	631,527	320,748
Installment loans payable	18,320	-0-	3,378	14,942	3,526
Capital leases	119,047	68,678	96,605	91,120	45,488
	<u>\$ 24,283,835</u>	<u>\$ 5,976,769</u>	<u>\$ 7,501,106</u>	<u>\$ 22,759,498</u>	<u>\$ 7,121,671</u>

The Hospital is also required to meet certain financial covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2009 and 2008.

Scheduled principal repayments on long-term debt following December 31, 2009 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2010	\$ 314,437	\$ 871,644	\$ 92,486	\$ 21,967
2011	726,344	863,765	96,485	15,832
2012	754,417	835,022	78,470	10,351
2013	784,407	804,845	83,384	5,436
2014	816,150	773,469	43,684	726
2015-2019	4,596,363	3,350,823	-0-	-0-
2020-2024	5,592,178	2,355,007	-0-	-0-
2025-2029	6,803,711	1,143,444	-0-	-0-
2030-2034	1,528,320	61,133	-0-	-0-
	<u>\$ 21,916,327</u>	<u>\$ 11,059,152</u>	<u>\$ 394,509</u>	<u>\$ 54,312</u>

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2009 and 2008 consists of the following:

	2009	2008
Inpatient services	\$ 61,865,045	\$ 56,308,411
Outpatient services	119,715,429	110,906,271
Gross patient service revenue	<u>181,580,474</u>	<u>167,214,682</u>
Contractual allowances	84,061,139	68,764,201
Bad debts	7,765,015	3,331,450
Charity care	2,885,883	7,236,232
Deductions from revenue	<u>94,712,037</u>	<u>79,331,883</u>
Net patient service revenue	<u>\$ 86,868,437</u>	<u>\$ 87,882,799</u>

The Hospital participates in the Indiana Upper Payment Limit Program (UPL) reimbursement program. The Hospital had net revenue of approximately \$2,261,715 and \$5,660,415 for DSH in 2009 and 2008, respectively. This program is a Federal program administered by the state.

10. 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. Members make no contributions to the Plan; all contributions are made by the Hospital. The Hospital is required to contribute at the Board approved rate.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

For employees hired before July 1, 2003 the rate is 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998 and for employees hired on or after July 1, 2003, their pension rate is 6% on all earnings. Hospital contributions to the plan for 2009 and 2008 were approximately \$2,519,000 and \$2,656,000, respectively.

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.

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 at a specific level of \$175,000. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$5,095,000 and \$4,374,000 for the years ended December 31, 2009 and 2008, respectively.

12. NET ASSETS RESTRICTED BY DONOR

Net assets restricted by donor of \$832,524 and \$782,635 at December 31, 2009 and 2008, respectively; consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

HENRY COUNTY HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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 2009 and 2008 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Self pay	25%	20%	7%	10%
Medicare and Medicaid	43%	38%	59%	54%
Other commercial	32%	42%	34%	36%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

SUPPLEMENTARY INFORMATION

HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2009

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
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	13,017,485	-0-	-0-	13,990,485
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
Less current portion	12,072,898	-0-	-0-	-0-	12,072,898
Total assets whose use is limited	<u>11,980,412</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,980,412</u>
Capital assets, net	24,654,154	17,480,090	133,166	-0-	42,267,410
Other assets	6,557,901	181,605	905,869	(2,216,445)	5,428,930
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

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
LIABILITIES AND NET ASSETS					
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	<u>7,506,386</u>	<u>698,231</u>	<u>10,838,476</u>	<u>(10,021,958)</u>	<u>9,021,135</u>
Other long-term liabilities					
	976,955	-0-	-0-	(785,032)	191,923
Long-term debt, net of current portion	<u>14,338,201</u>	<u>7,557,942</u>	<u>7,770</u>	<u>-0-</u>	<u>21,903,913</u>
Total liabilities	<u>22,821,542</u>	<u>8,256,173</u>	<u>10,846,246</u>	<u>(10,806,990)</u>	<u>31,116,971</u>
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	<u>45,504,030</u>	<u>23,691,108</u>	<u>(4,075,335)</u>	<u>-0-</u>	<u>65,119,803</u>
Total liabilities and net 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 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	-	(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	-	12,880,372	(1,030,965)	52,222,290
Medical professional fees	1,299,653	-	1,788,195	-	3,087,848
Other professional fees	4,698,482	-	1,766,092	(96,300)	6,368,274
Medical supplies and drugs	7,641,340	-	7,576,780	(1,815,089)	13,403,031
Other supplies	951,031	-	-	-	951,031
Depreciation and amortization	3,985,925	1,111,616	121,073	-	5,218,614
Utilities	1,349,186	-	98,929	-	1,448,115
Rent	2,050,994	-	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)	-	(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)	-	251,600
Total nonoperating income (expense)	<u>743,695</u>	<u>2,178,312</u>	<u>52,724</u>	<u>-</u>	<u>2,974,731</u>
Change in net assets	2,668,400	3,378,826	(3,079,103)	-	2,968,123
Net assets beginning of year	42,835,630	20,312,282	(996,232)	-	62,151,680
Net assets end of year	<u>\$ 45,504,030</u>	<u>\$ 23,691,108</u>	<u>\$ (4,075,335)</u>	<u>\$ -</u>	<u>\$ 65,119,803</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS 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)	-	(12,880,372)	1,030,965	(51,948,938)
Cash paid to vendors for goods and services	(22,609,338)	(3,278,764)	(10,819,277)	5,327,436	(31,379,943)
Other operating receipts, net	(526,884)	4,206,194	-	(3,242,790)	436,520
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)	-	251,600
Net cash flows from noncapital financing activities	179,126	75,805	(3,331)	-	251,600
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(1,419,850)	(5,687)	(26,865)	-	(1,452,402)
Interest expense on long-term debt	(719,757)	(419,724)	(47,953)	150,145	(1,037,289)
Proceeds received from loan	14,036,179	-	-	-	14,036,179
Principal payments on long-term debt, net	(14,218,637)	(628,977)	(19,851)	16,336	(14,851,129)
Net cash flows from capital and related financing activities	(2,322,065)	(1,054,388)	(94,669)	166,481	(3,304,641)
Cash flows from investing activities					
Investment income	1,284,326	2,522,231	104,008	(150,145)	3,760,420
Other assets	(302,702)	22,805	381,766	(354,432)	(252,563)
Change in assets whose use is limited, net	(3,820,900)	-	-	-	(3,820,900)
Change in investments, net	5,370,128	(3,518,612)	(24,001)	-	1,827,515
Net cash flows from investing activities	2,530,852	(973,576)	461,773	(504,577)	1,514,472
Net change in cash and cash equivalents	3,281,314	315,731	278,532	-	3,875,577
Cash and cash equivalents					
Beginning of year	8,169,470	817,171	1,382,296	-	10,368,937
End of year	<u>\$ 11,450,784</u>	<u>\$ 1,132,902</u>	<u>\$ 1,660,828</u>	<u>\$ -</u>	<u>\$ 14,244,514</u>

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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-	-0-	-0-	7,765,015
(Gain)/Loss on disposal	2,117	-0-	-0-	-0-	2,117
Changes in assets and liabilities:					
Patient accounts receivable	(7,471,322)	-0-	(135,208)	-0-	(7,606,530)
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	<u>\$ 2,893,401</u>	<u>\$ 2,267,890</u>	<u>\$ (85,241)</u>	<u>\$ 338,096</u>	<u>\$ 5,414,146</u>

**Reconciliation of cash and cash equivalents to
the balance sheets**

Cash and cash equivalents	\$ 8,367,485	\$ 1,132,902	\$ 1,660,828	\$ -0-	\$ 11,161,215
In current assets	3,000,099	-0-	-0-	-0-	3,000,099
In investments	83,200	-0-	-0-	-0-	83,200
In assets whose use is limited					
Total cash and cash equivalents	<u>\$ 11,450,784</u>	<u>\$ 1,132,902</u>	<u>\$ 1,660,828</u>	<u>\$ -0-</u>	<u>\$ 14,244,514</u>

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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	\$ (2,765,126)
Other revenue	2,293,622	261,015	472,122	3,026,759	3,117,832	(91,073)
Total revenue	64,029,920	1,955,376	1,597,339	67,582,635	70,438,834	(2,856,199)
Operating expenses						
Salaries and benefits	36,061,473	2,509,849	1,801,561	40,372,883	39,301,790	1,071,093
Medical professional fees	1,284,145	15,508	-0-	1,299,653	1,474,499	(174,846)
Other professional fees	4,609,996	1,858	86,628	4,698,482	3,810,530	887,952
Medical supplies and drugs	7,438,674	81,988	120,678	7,641,340	7,736,814	(95,474)
Other supplies	922,610	24,072	4,349	951,031	863,072	87,959
Depreciation and amortization	3,893,867	92,058	-0-	3,985,925	4,227,594	(241,669)
Utilities	1,324,421	7,700	17,065	1,349,186	1,465,464	(116,278)
Rent	1,574,252	403,788	72,954	2,050,994	1,960,355	90,639
Other	3,205,417	47,354	55,665	3,308,436	3,532,481	(224,045)
Total expenses	60,314,855	3,184,175	2,158,900	65,657,930	64,372,599	1,285,331
Operating income (loss)	3,715,065	(1,228,799)	(561,561)	1,924,705	6,066,235	(4,141,530)
Nonoperating income (expense)						
Investment income (loss)	1,284,009	-0-	317	1,284,326	(2,221,785)	3,506,111
Interest expense	(719,757)	-0-	-0-	(719,757)	(891,094)	171,337
Other nonoperating	178,987	443	(304)	179,126	148,087	31,039
Total nonoperating income (expense)	743,239	443	13	743,695	(2,964,792)	3,708,487
Change in net assets	\$ 4,458,304	\$ (1,228,356)	\$ (561,548)	\$ 2,668,400	\$ 3,101,443	\$ (433,043)

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HENRY COUNTY HOSPITAL

SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2008 AND 2007

	Hospital 2008	NCFP 2008	NCP 2008	Total 2008	Total 2007	Change
Operating revenue						
Net patient service revenue	\$ 63,932,165	\$ 2,021,766	\$ 1,367,071	\$ 67,321,002	\$ 59,220,465	\$ 8,100,537
Other revenue	2,210,953	292,266	614,613	3,117,832	2,713,131	404,701
Total revenue	<u>66,143,118</u>	<u>2,314,032</u>	<u>1,981,684</u>	<u>70,438,834</u>	<u>61,933,596</u>	<u>8,505,238</u>
Operating expenses						
Salaries and benefits	35,064,232	2,526,419	1,711,139	39,301,790	38,526,435	775,355
Medical professional fees	1,454,916	19,583	-0-	1,474,499	1,107,890	366,609
Other professional fees	3,687,785	15,522	107,223	3,810,530	3,307,087	503,443
Medical supplies and drugs	7,516,717	105,860	114,237	7,736,814	6,737,903	998,911
Other supplies	841,205	19,449	2,418	863,072	752,823	110,249
Depreciation and amortization	4,137,537	90,057	-0-	4,227,594	4,481,348	(253,754)
Utilities	1,437,708	8,115	19,641	1,465,464	1,400,549	64,915
Rent	1,498,114	389,512	72,729	1,960,355	1,719,099	241,256
Other	3,417,012	45,115	70,354	3,532,481	3,361,488	170,993
Total expenses	<u>59,055,226</u>	<u>3,219,632</u>	<u>2,097,741</u>	<u>64,372,599</u>	<u>61,394,622</u>	<u>2,977,977</u>
Operating income (loss)	7,087,892	(905,600)	(116,057)	6,066,235	538,974	5,527,261
Nonoperating income (expense)						
Investment income (loss)	(2,222,581)	-0-	796	(2,221,785)	997,562	(3,219,347)
Interest expense	(891,094)	-0-	-0-	(891,094)	(874,292)	(16,802)
Other nonoperating	148,241	910	(1,064)	148,087	129,141	18,946
Total nonoperating income (expense)	<u>(2,965,434)</u>	<u>910</u>	<u>(268)</u>	<u>(2,964,792)</u>	<u>252,411</u>	<u>(3,217,203)</u>
Change in net assets	<u>\$ 4,122,458</u>	<u>\$ (904,690)</u>	<u>\$ (116,325)</u>	<u>\$ 3,101,443</u>	<u>\$ 791,385</u>	<u>\$ 2,310,058</u>

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HENRY COUNTY HOSPITAL
COMBINING BALANCE SHEETS
DECEMBER 31, 2008

ASSETS	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 8,123,975	\$ 506,848	\$ 1,382,296	\$ -0-	\$ 10,013,119
Restricted cash equivalents	-0-	310,323	-0-	-0-	310,323
Patient accounts receivable, net	7,177,347	-0-	2,833,491	-0-	10,010,838
Supplies and other current assets	1,012,791	110,688	361,353	(20,984)	1,463,848
Due from related parties	4,367,015	22,485	679,730	(5,069,230)	-0-
Current portion of assets whose use is limited	6,376,338	-0-	-0-	-0-	6,376,338
Total current assets	<u>27,057,466</u>	<u>950,344</u>	<u>5,256,870</u>	<u>(5,090,214)</u>	<u>28,174,466</u>
Investments	3,334,767	9,578,283	-0-	-0-	12,913,050
Assets whose use is limited					
Internally designated	8,073,745	-0-	-0-	-0-	8,073,745
Held by trustee	157,261	-0-	-0-	-0-	157,261
Less current portion	8,231,006	-0-	-0-	-0-	8,231,006
Total assets whose use is limited	<u>6,376,338</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,376,338</u>
Capital assets, net	26,847,607	18,506,609	203,373	-0-	45,557,589
Other assets	6,255,199	204,410	1,287,635	(2,570,877)	5,176,367
Total assets	<u>\$ 65,349,707</u>	<u>\$ 29,239,646</u>	<u>\$ 6,747,878</u>	<u>\$ (7,661,091)</u>	<u>\$ 93,676,140</u>

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HENRY COUNTY HOSPITAL

COMBINING BALANCE SHEETS DECEMBER 31, 2008

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 6,376,338	\$ 741,807	\$ 19,862	\$ (16,336)	\$ 7,121,671
Accounts payable and accrued expenses	2,708,662	282,853	1,994,844	(309,246)	4,677,113
Accrued wages and related liabilities	3,574,517	-0-	-0-	-0-	3,574,517
Estimated third-party settlements	382,187	-0-	-0-	-0-	382,187
Due to related parties	331,245	146,813	5,717,987	(6,196,045)	-0-
Total current liabilities	<u>13,372,949</u>	<u>1,171,473</u>	<u>7,732,693</u>	<u>(6,521,627)</u>	<u>15,755,488</u>
Other long-term liabilities	1,270,609	-0-	-0-	(1,139,464)	131,145
Long-term debt, net of current portion	<u>7,870,519</u>	<u>7,755,891</u>	<u>11,417</u>	<u>-0-</u>	<u>15,637,827</u>
Total liabilities	<u>22,514,077</u>	<u>8,927,364</u>	<u>7,744,110</u>	<u>(7,661,091)</u>	<u>31,524,460</u>
Net assets					
Unrestricted	22,003,874	9,520,736	(1,168,326)	(16,336)	30,339,948
Invested in capital assets, net of related debt	12,600,750	10,008,911	172,094	16,336	22,798,091
Restricted					
Expendable - debt service	157,261	-0-	-0-	-0-	157,261
Expendable - funded depreciation	8,073,745	-0-	-0-	-0-	8,073,745
By donor - expendable - for capital acquisition	-0-	782,635	-0-	-0-	782,635
Total net assets	<u>42,835,630</u>	<u>20,312,282</u>	<u>(996,232)</u>	<u>-0-</u>	<u>62,151,680</u>
Total liabilities and net assets	<u>\$ 65,349,707</u>	<u>\$ 29,239,646</u>	<u>\$ 6,747,878</u>	<u>\$ (7,661,091)</u>	<u>\$ 93,676,140</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 67,321,002	\$ 1,360,690	\$ 21,716,788	\$ (2,515,681)	\$ 87,882,799
Other revenue	3,117,832	4,082,013	-0-	(3,082,105)	4,117,740
Total revenue	<u>70,438,834</u>	<u>5,442,703</u>	<u>21,716,788</u>	<u>(5,597,786)</u>	<u>92,000,539</u>
Operating expenses					
Salaries and benefits	39,301,790	-0-	11,537,784	(946,928)	49,892,646
Medical professional fees	1,474,499	-0-	1,553,978	-0-	3,028,477
Other professional fees	3,810,530	-0-	1,720,210	(94,402)	5,436,338
Medical supplies and drugs	7,736,814	-0-	7,351,092	(1,649,824)	13,438,082
Other supplies	863,072	-0-	300,177	-0-	1,163,249
Depreciation and amortization	4,227,594	1,198,417	125,535	-0-	5,551,546
Utilities	1,465,464	-0-	41,674	-0-	1,507,138
Rent	1,960,355	-0-	439,728	(1,522,933)	877,150
Other	3,532,481	3,291,617	917,036	(1,383,699)	6,357,435
Total expenses	<u>64,372,599</u>	<u>4,490,034</u>	<u>23,987,214</u>	<u>(5,597,786)</u>	<u>87,252,061</u>
Operating income (loss)	6,066,235	952,669	(2,270,426)	-0-	4,748,478
Nonoperating income (expense)					
Investment income (loss)	(2,221,785)	(5,007,627)	134,908	(173,742)	(7,268,246)
Interest expense	(891,094)	(406,138)	(49,147)	173,742	(1,172,637)
Other nonoperating	148,087	174,011	79,468	25,000	426,566
Total nonoperating income (expense)	<u>(2,964,792)</u>	<u>(5,239,754)</u>	<u>165,229</u>	<u>25,000</u>	<u>(8,014,317)</u>
Change in net assets	3,101,443	(4,287,085)	(2,105,197)	25,000	(3,265,839)
Net assets beginning of year	39,734,187	24,599,367	1,108,965	(25,000)	65,417,519
Net assets end of year	<u>\$ 42,835,630</u>	<u>\$ 20,312,282</u>	<u>\$ (996,232)</u>	<u>\$ -0-</u>	<u>\$ 62,151,680</u>

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
Cash flows from operating activities					
Cash received from patients and third party payors	\$ 68,668,249	\$ 1,360,690	\$ 21,198,882	\$ (2,515,681)	\$ 88,712,140
Cash paid to employees for wages and benefits	(38,950,586)	-0-	(11,537,784)	946,928	(49,541,442)
Cash paid to vendors for goods and services	(20,762,323)	(3,201,803)	(10,243,349)	4,783,613	(29,423,862)
Other operating receipts, net	146,373	4,303,505	-0-	(2,914,682)	1,535,196
Net cash flows from operating activities	9,101,713	2,462,392	(582,251)	300,178	11,282,032
Cash flows from noncapital financing activities					
Other nonoperating	148,087	174,011	79,468	25,000	426,566
Net cash flows from noncapital financing activities	148,087	174,011	79,468	25,000	426,566
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(1,965,658)	(637,780)	(88,408)	-0-	(2,691,846)
Interest expense on long-term debt	(891,094)	(406,138)	(49,147)	173,742	(1,172,637)
Proceeds received from loan	5,908,091	-0-	-0-	-0-	5,908,091
Principal payments on long-term debt, net	(6,591,334)	(906,394)	(34,444)	31,067	(7,501,105)
Net cash flows from capital and related financing activities	(3,539,995)	(1,950,312)	(171,999)	204,809	(5,457,497)
Cash flows from investing activities					
Investment income (loss)	(2,221,785)	(5,007,627)	134,908	(173,742)	(7,268,246)
Other assets	(98,264)	10,539	358,577	(331,245)	(60,393)
Change in assets whose use is limited, net	604,853	-0-	-0-	-0-	604,853
Change in investments, net	205,922	4,225,332	(26,554)	(25,000)	4,379,700
Net cash flows from investing activities	(1,509,274)	(771,756)	466,931	(529,987)	(2,344,086)
Net change in cash and cash equivalents	4,200,531	(85,665)	(207,851)	-0-	3,907,015
Cash and cash equivalents					
Beginning of year	3,968,939	902,836	1,590,147	-0-	6,461,922
End of year	\$ 8,169,470	\$ 817,171	\$ 1,382,296	\$ -0-	\$ 10,368,937

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HENRY COUNTY HOSPITAL

COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2008

Reconciliation of operating income (loss) to net cash flows from operating activities
 Operating income (loss)
 Adjustment to reconcile operating income (loss) to net cash flows from operating activities:
 Depreciation and amortization
 Bad debts
 Loss on disposal
 Changes in assets and liabilities:
 Patient accounts receivable
 Supplies and other current assets
 Accounts payable and accrued expenses
 Accrued salaries and related liabilities
 Other long-term liabilities
 Due from (to) related parties
 Estimated third-party settlements
 Net cash flows from operating activities

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
	\$ 6,066,235	\$ 952,669	\$ (2,270,426)	\$ -0-	\$ 4,748,478
	4,227,594	1,198,417	125,535	-0-	5,551,546
	3,331,450	-0-	-0-	-0-	3,331,450
	300	-0-	-0-	-0-	300
	(1,931,904)	-0-	(517,906)	-0-	(2,449,810)
	(135,796)	(23,908)	(144,862)	18,589	(285,977)
	416,788	113,722	(277,436)	(217,079)	35,995
	351,204	-0-	-0-	-0-	351,204
	(200,100)	-0-	(80,000)	331,245	51,145
	(2,971,759)	221,492	2,582,844	167,423	-0-
	(52,299)	-0-	-0-	-0-	(52,299)
	<u>\$ 9,101,713</u>	<u>\$ 2,462,392</u>	<u>\$ (582,251)</u>	<u>\$ 300,178</u>	<u>\$ 11,282,032</u>

Reconciliation of cash and cash equivalents to the balance sheets
 Cash and cash equivalents
 In current assets
 In investments
 In assets whose use is limited
 Total cash and cash equivalents

	\$ 8,123,975	\$ 817,171	\$ 1,382,296	\$ -0-	\$ 10,323,442
	45,495	-0-	-0-	-0-	45,495
	-0-	-0-	-0-	-0-	-0-
	<u>\$ 8,169,470</u>	<u>\$ 817,171</u>	<u>\$ 1,382,296</u>	<u>\$ -0-</u>	<u>\$ 10,368,937</u>

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