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April 29, 2009

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Hendricks Regional Health, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007

HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

We have audited the accompanying consolidated balance sheets of Hendricks Regional Health (Hospital) as of December 31, 2008 and 2007 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2008 and 2007, and the consolidated results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages i through vi is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States. 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.

Board of Trustees
Hendricks Regional Health
Danville, Indiana

Our audits were made for the purpose of forming an opinion on the basic consolidated 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 consolidated financial statements. This information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Blue & Co., LLC

April 6, 2009

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

This section of Hendricks Regional Health's (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2008. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Hendricks Regional Health Foundation, Inc. and Hendricks Ambulatory Management Company. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net assets increased approximately \$7,072,000 or 4.4% in 2008.
- The Hospital reported operating income of approximately \$13,598,000 for 2008, representing an increase of approximately \$2,343,000 in comparison to the year 2007 results.
- The Hospital continued its expansion of facilities and equipment in 2008 as net capital assets increased approximately \$21,802,000.
- The Hospital's assets whose use is limited incurred losses in market value during 2008 of approximately \$6,600,000.

Using This Annual Report

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

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

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Operations and Changes in Net Assets.

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

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

The Hospital's Net Assets

Table 1: Assets, Liabilities, and Net Assets

	2008	2007	Change
Assets			
Current assets	\$ 32,317,330	\$ 36,053,924	\$ (3,736,594)
Capital assets, net	164,338,989	142,537,083	21,801,906
Assets whose use is limited	40,990,043	53,031,780	(12,041,737)
Other assets	1,147,035	1,200,537	(53,502)
Total assets	<u>\$ 238,793,397</u>	<u>\$ 232,823,324</u>	<u>\$ 5,970,073</u>
Liabilities			
Current liabilities	\$ 17,699,857	\$ 17,344,688	\$ 355,169
Long-term debt	51,647,464	53,220,135	(1,572,671)
Total liabilities	69,347,321	70,564,823	(1,217,502)
Minority interest	748,073	632,023	116,050
Net assets			
Invested in capital assets, net of related debt	111,451,025	88,240,948	23,210,077
Unrestricted	57,246,978	73,385,530	(16,138,552)
Total net assets	<u>168,698,003</u>	<u>161,626,478</u>	<u>7,071,525</u>
Total liabilities and net assets	<u>\$ 238,793,397</u>	<u>\$ 232,823,324</u>	<u>\$ 5,970,073</u>

The significant changes in the Hospital's assets were capital assets increasing \$21,802,000 and assets whose use is limited decreasing \$12,042,000 in 2008 compared to 2007. The decrease in assets whose use is limited is the result of capital additions and the decline in the market value of investments in 2008.

The Hospital entered into a venture with the Westside Indianapolis YMCA to construct a medical office building and wellness center in Avon, Indiana. Costs incurred through December 31, 2008 were \$10,700,000.

Construction began in 2008 on a new surgical tower to be built on the main campus. The estimated cost of this project is \$65,000,000 with occupancy occurring in 2010. Costs incurred as of December 31, 2008 were approximately \$16,000,000. The project is financed mainly through a new debt issue that was finalized in early 2009.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	2008	2007	Change
Operating revenue			
Net patient service revenue	\$ 162,838,412	\$ 148,461,516	\$ 14,376,896
Other operating revenue	3,599,555	3,312,900	286,655
Total operating revenue	166,437,967	151,774,416	14,663,551
Operating expenses			
Salaries and benefits	89,095,263	83,121,782	5,973,481
Medical supplies and drugs	16,421,957	14,617,548	1,804,409
Depreciation and amortization	12,352,736	11,241,781	1,110,955
Other operating expenses	34,969,693	31,538,410	3,431,283
Total operating expenses	152,839,649	140,519,521	12,320,128
Operating income before minority interest	13,598,318	11,254,895	2,343,423
Minority interest	(326,850)	(88,023)	(238,827)
Operating income after minority interest	13,271,468	11,166,872	2,104,596
Nonoperating income (expense), net	(6,199,943)	1,849,178	(8,049,121)
Change in net assets	7,071,525	13,016,050	(5,944,525)
Net assets			
Beginning of year	161,626,478	148,610,428	13,016,050
End of year	\$ 168,698,003	\$ 161,626,478	\$ 7,071,525

Sources of Revenue

During 2008, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 43% of the Hospital's gross revenues in 2008 but only 26% of the Hospital's net patient service revenues.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Following is a table of major sources of gross patient revenues for 2008:

<u>Payor</u>	<u>% of Gross Revenues</u>
Medicare	37.1%
Anthem/Blue Cross	27.0%
Other	6.7%
Self Pay	6.1%
Medicaid	5.5%
United Health Care	4.9%
Sagamore	4.3%
Cigna	3.2%
Unicare	3.2%
Aetna	2.0%
Total	<u>100.0%</u>

The Hospital's patient mix between inpatient and outpatient services is different than other hospital averages. The Hospital's outpatient services represented 71% of the Hospital's gross patient revenue in 2008. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 49% through the first ten months of 2008.

Operating and Financial Performance

The Hospital's performance in 2008 was below historical standards with a return on equity of 4.2% compared to prior year's 8.1%. The Hospital's debt service coverage ratio remained strong at approximately 5.5 times.

This following section highlights the major financial factors for 2008:

- The Hospital's discharges for 2008 declined .28% to 5,813 from 2007's total of 5,829; the Hospital's adjusted patient days decreased to 82,130 in 2008 compared to 84,971 in 2007. The decrease in adjusted patient days was due to a slight decline in the Hospital's outpatient volumes.
- During 2008, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$10,122,000 compared to payments of \$5,161,000 received in 2007.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

- Operating expenses increased \$12,320,000, or 8.8%. This growth is attributable to the increasing costs of resources utilized to provide services to the Hospital's patients.
- Salaries and Benefits represented the largest increase over 2007. Salaries and Benefits expense for 2008 was \$5,974,000 greater than 2007. The increase represented a 7.2% change from 2007. The increase in Salaries and Benefits was necessary to provide quality care and to meet the expectations of our patients.

Capital Assets

During 2008, the Hospital invested \$33.5 million in capital assets before any asset disposals. The change in capital assets is outlined in the following table:

	2008	2007	Change
Land and improvements	\$ 23,917,943	\$ 13,567,580	\$ 10,350,363
Buildings and fixed equipment	154,544,517	153,530,804	1,013,713
Major moveable equipment	60,945,080	58,249,858	2,695,222
Construction in progress	16,582,427	3,775,955	12,806,472
Total capital assets	255,989,967	229,124,197	26,865,770
Less accumulated depreciation	91,650,978	86,587,114	5,063,864
Capital assets - net	<u>\$ 164,338,989</u>	<u>\$ 142,537,083</u>	<u>\$ 21,801,906</u>

During 2008, a physical inventory of Capital Assets was conducted and \$7.8 million of capital assets costs were removed from the Hospital's records and a loss on disposal of \$600,000 was included in the results from operations.

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

Debt

During March 2009, the Hospital issued \$75 million of new debt that will be used to fund the construction of the new surgical tower previously discussed. The new 2009 bonds were issued through the Indiana Bond Bank. More detailed information about the Hospital's long-term debt is presented in the Notes to the Combined Financial Statements.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

Economic Outlook

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

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 409, Danville, IN, 46122-0409.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	\$ 4,799,840	\$ 8,618,490
Investments	497,003	522,294
Patient accounts receivable, less allowance for uncollectible account of \$7,954,477 in 2008 and \$6,219,107 in 2007	23,561,132	23,911,031
Inventories	798,799	765,383
Other current assets	1,310,556	941,726
Current portion of assets whose use is limited	1,350,000	1,295,000
Total current assets	32,317,330	36,053,924
Assets whose use is limited		
Board designated funded depreciation investments	42,042,983	53,997,153
Other board designated investments	297,060	329,627
Total assets whose use is limited	42,340,043	54,326,780
Less current portion	1,350,000	1,295,000
Noncurrent assets whose use is limited	40,990,043	53,031,780
Capital assets		
Land	17,828,766	7,321,310
Depreciable capital assets	238,161,201	221,802,887
	255,989,967	229,124,197
Less accumulated depreciation	91,650,978	86,587,114
Capital assets, net	164,338,989	142,537,083
Other assets		
Bond issue costs, net of accumulated amortization of \$88,058 in 2008 and \$32,442 in 2007	854,565	933,514
Physician recruitment and other assets	292,470	267,023
Total other assets	1,147,035	1,200,537
Total assets	\$ 238,793,397	\$ 232,823,324

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Current portion of long-term debt	\$ 1,350,000	\$ 1,295,000
Accounts payable	3,975,556	4,083,784
Accrued salaries and related liabilities	8,059,575	6,785,187
Accrued expenses and other current liabilities	3,523,418	4,211,636
Accrued interest	654,616	669,081
Estimated third-party settlements	136,692	300,000
Total current liabilities	17,699,857	17,344,688
Long-term liabilities		
Long-term debt, net of current portion	51,537,964	53,001,135
Physician recruitment liability	109,500	219,000
Total long-term liabilities	51,647,464	53,220,135
Total liabilities	69,347,321	70,564,823
Minority interest	748,073	632,023
Net assets		
Invested in capital assets, net of related debt	111,451,025	88,240,948
Unrestricted	57,246,978	73,385,530
Total net assets	168,698,003	161,626,478
Total liabilities and net assets	\$ 238,793,397	\$ 232,823,324

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating revenue		
Net patient service revenue	\$ 162,838,412	\$ 148,461,516
Other operating revenue	3,599,555	3,312,900
Total operating revenue	166,437,967	151,774,416
Operating expenses		
Salaries and wages	70,032,318	65,300,746
Employee benefits	19,062,945	17,821,036
Professional medical fees	1,108,716	949,652
Other professional fees	10,012,028	7,451,571
Medical and surgical supplies	10,988,361	9,859,615
Drugs and intravenous solutions	5,433,596	4,757,933
Food	901,258	837,678
Purchased services	11,359,233	11,021,230
Equipment rental	2,795,371	2,294,322
Telephone and utilities	3,252,606	2,981,378
Depreciation and amortization	12,352,736	11,241,781
Insurance	918,846	1,250,398
Other supplies and expenses	4,621,635	4,752,181
Total operating expenses	152,839,649	140,519,521
Operating income before minority interest	13,598,318	11,254,895
Minority interest	(326,850)	(88,023)
Operating income after minority interest	13,271,468	11,166,872
Nonoperating income (expense)		
Investment income (loss)	(3,925,969)	4,187,767
Interest expense	(2,273,974)	(2,338,589)
Total nonoperating income (expense), net	(6,199,943)	1,849,178
Change in net assets	7,071,525	13,016,050
Net assets		
Beginning of year	161,626,478	148,610,428
End of year	\$ 168,698,003	\$ 161,626,478

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating activities		
Cash received from patient services	\$ 163,351,619	\$ 145,616,017
Cash paid for salaries, wages and benefits	(90,369,651)	(81,922,724)
Cash paid to vendors and suppliers	(50,929,483)	(47,161,927)
Other receipts, net	3,599,555	3,312,900
Net cash flows from operating activities	25,652,040	19,844,266
Capital and related financing activities		
Acquisition and construction of capital assets	(33,443,519)	(16,684,013)
Proceeds from disposal of capital assets	-0-	16,750
Minority interest share of income	(326,850)	(88,023)
Interest on long-term debt	(2,273,974)	(2,338,589)
Proceeds from long-term debt	-0-	44,915,000
Payments for bond premium and issue costs	-0-	(5,003,529)
Principal payments for long-term debt	(1,295,000)	(48,355,000)
Net cash flows from capital and related financing activities	(37,339,343)	(27,537,404)
Investing activities		
Nonoperating gains, primarily investment income	(3,925,969)	4,187,767
Other changes in investments and assets whose use is limited	10,605,692	5,308,653
Net cash flows from investing activities	6,679,723	9,496,420
Net change in cash and cash equivalents	(5,007,580)	1,803,282
Cash and cash equivalents		
Beginning of year	10,753,708	8,950,426
End of year	<u>\$ 5,746,128</u>	<u>\$ 10,753,708</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 4,799,840	\$ 8,618,490
In board designated funds	946,288	2,135,218
Total cash and cash equivalents	<u>\$ 5,746,128</u>	<u>\$ 10,753,708</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 13,598,318	\$ 11,254,895
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	12,352,736	11,241,781
Bad debts	13,478,431	10,919,039
Changes in operating assets and liabilities		
Patient accounts receivable	(13,128,532)	(13,764,538)
Inventories	(33,416)	54,098
Other current assets	(368,830)	(4,383)
Other assets	53,502	(1,872,503)
Accounts payable	108,228	317,118
Accrued salaries and related liabilities	(1,274,388)	1,199,058
Accrued expenses and other current liabilities	688,218	547,123
Accrued interest	14,465	(47,422)
Estimated third-party settlements	163,308	-0-
Net cash flows from operating activities	<u>\$ 25,652,040</u>	<u>\$ 19,844,266</u>
 Supplemental disclosure of cash flows information		
Cash paid for interest, net of interest capitalized of \$359,757 in 2008 and \$399,160 in 2007	\$ 2,259,509	\$ 2,386,011
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ 1,231,510	\$ 949,738

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

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

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

Basis of Consolidation

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

Use of Estimates

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

Enterprise Fund Accounting

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Accounting Standards

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments consist mainly of certificates of deposit with original maturities of greater than 90 days and other non-cash equivalent securities. Investments are reported at fair value.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2008. Amounts for unresolved cost reports for 2007 through 2008 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2008 and 2007, the Hospital recognized approximately \$6,100 and \$51,000 in the statements of

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

revenues and expenses, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

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

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

Inventories

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

	2008	2007
Medical supplies and other	\$ 455,941	\$ 408,943
Pharmaceutical	342,858	356,440
	<u>\$ 798,799</u>	<u>\$ 765,383</u>

Assets Whose Use is Limited

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

The Hospital holds Level 1 investments, in which fair market values are readily determinable using quoted prices in active markets for identical assets as determined by FAS 157: *Fair Value Measurements*. Level 2 investments fair market values are determined by significant other observable inputs.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and which substantially increase the useful lives of existing facilities. Maintenance, repairs and minor renewals are expensed as incurred.

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

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

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was \$2,124,986 and \$1,851,357 for 2008 and 2007, respectively.

Investment in Affiliates

In January 2007, HAMCO was formed to manage the Hospital's outpatient surgery center. As the sole Class B member of HAMCO, the Hospital's voting rights are 50%. The Hospital does maintain control over certain decisions which may have a direct effect on the Hospital's charitable mission or tax exempt status. The Hospital maintains substantial participation in the operations of HAMCO in addition to an economic interest in HAMCO's financial position. The Hospital elected to consolidate HAMCO for financial reporting purposes.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's consolidated statements of revenues, expenses 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 which is the Hospital's principal activity. Contributions and investment income are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, excluding interest costs.

Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all cash held in checking, savings, and money market accounts with original maturity dates of 90 days or less in current assets, board designated funds and trustee held assets.

Charity Care

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$880,956. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2008 and 2007 was \$88,058 and \$32,442, respectively. Amortization expense for the next five succeeding years should approximate \$55,616 per year. Bond issue costs are recorded in other assets on the consolidated balance sheets.

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 balance sheets for cash and cash equivalents, patient accounts

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. The fair market value of the Hospital's long-term debt was approximately \$58,342,000 compared to carrying value of approximately \$50,695,000 as of December 31, 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). Hendricks Regional Health Foundation, Inc. is a 501(c)(3) not-for-profit organization.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

Compensated Absences

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

Reclassifications

Certain amounts from the 2007 consolidated financial statements have been reclassified to conform to the current year presentation.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Litigation

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

On July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Physician Recruitment

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. The Hospital recognized an asset and corresponding liability of \$109,500 and \$219,000 as of December 31, 2008 and 2007, respectively.

2. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2008 and 2007 was \$3,763,897 and \$3,631,500, respectively.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant other observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the changes in net assets and financial position.

Fair values of financial instruments as of December 31, 2008 are as follows:

	Fair value measurements at reporting date using			
	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments				
Certificates of deposit	\$ 497,003	\$ -0-	\$ 497,003	\$ -0-
Assets whose use is limited				
Certificates of deposit	\$ 1,295,893	\$ -0-	\$ 1,295,893	\$ -0-
Mutual funds - debt securities	35,099,114	35,099,114	-0-	-0-
Mutual funds - equities	5,945,036	5,945,036	-0-	-0-
	<u>\$ 42,340,043</u>	<u>\$ 41,044,150</u>	<u>\$ 1,295,893</u>	<u>\$ -0-</u>

In addition to quoted market prices in active markets, valuation techniques included:

- Level 2-estimates on similar investments
- Level 3-management's estimate of the present value of future cash flows arising from the arrangement

4. CAPITAL ASSETS

Progressions for capital assets for 2008 and 2007 follow:

	December 31, 2007	Additions	Disposals	Transfers	December 31, 2008
Land	\$ 7,321,310	\$ 10,507,456	\$ -0-	\$ -0-	\$ 17,828,766
Land improvements	6,246,270	135,457	(319,964)	27,414	6,089,177
Buildings and fixed equipment	153,530,804	216,520	(2,709,871)	3,507,064	154,544,517
Major movable equipment	58,249,858	7,473,714	(4,778,492)	-0-	60,945,080
Construction in progress	3,775,955	16,341,882	(932)	(3,534,478)	16,582,427
Total capital assets	229,124,197	34,675,029	(7,809,259)	-0-	255,989,967
Less accumulated depreciation					
Land improvements	(2,358,431)	(276,216)	319,959	-0-	(2,314,688)
Buildings and fixed equipment	(47,520,739)	(5,427,942)	2,472,319	-0-	(50,476,362)
Major movable equipment	(36,707,944)	(6,824,470)	4,672,486	-0-	(38,859,928)
Total accumulated depreciation	(86,587,114)	(12,528,628)	7,464,764	-0-	(91,650,978)
Capital assets, net	<u>\$ 142,537,083</u>	<u>\$ 22,146,401</u>	<u>\$ (344,495)</u>	<u>\$ -0-</u>	<u>\$ 164,338,989</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

	December 31, 2006	Additions	Disposals	Transfers	December 31, 2007
Land	\$ 7,317,811	\$ 20,249	\$ (16,750)	\$ -0-	\$ 7,321,310
Land improvements	5,668,284	577,986	-0-	-0-	6,246,270
Buildings and fixed equipment	135,935,606	960,206	-0-	16,634,992	153,530,804
Major movable equipment	50,957,249	9,827,898	(2,535,289)	-0-	58,249,858
Construction in progress	14,163,535	6,247,412	-0-	(16,634,992)	3,775,955
Total capital assets	214,042,485	17,633,751	(2,552,039)	-0-	229,124,197
Less accumulated depreciation					
Land improvements	(2,105,022)	(253,522)	113	-0-	(2,358,431)
Buildings and fixed equipment	(43,921,932)	(5,195,896)	1,597,089	-0-	(47,520,739)
Major movable equipment	(31,892,456)	(5,753,575)	938,087	-0-	(36,707,944)
Total accumulated depreciation	(77,919,410)	(11,202,993)	2,535,289	-0-	(86,587,114)
Capital assets, net	\$ 136,123,075	\$ 6,430,758	\$ (16,750)	\$ -0-	\$ 142,537,083

Depreciation and amortization expense for 2008 and 2007 was \$12,352,736 and \$11,241,781, respectively. Construction commitments remaining as of December 31, 2008 were approximately \$36 million.

5. 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 investments accounts are left to accumulate as an addition to the funds.

The following represents assets whose use is limited as of December 31, 2008 and 2007:

	2008	2007
Board designated funds		
Cash and cash equivalents	\$ 946,288	\$ 2,135,218
Investments	41,383,407	52,172,034
Accrued interest receivable	10,348	19,528
	<u>\$ 42,340,043</u>	<u>\$ 54,326,780</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

6. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and U.S. Government securities. Market value approximated cost as of December 31, 2008 and 2007.

The Hospital's investments generally are reported at fair value. As of December 31, 2008 and 2007, 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, 2008					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 946,288	\$ 946,288	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	846,608	-0-	846,608	-0-	-0-
Debt mutual funds	35,099,114	35,084,655	-0-	14,459	-0-
Equity mutual funds	5,945,036	5,945,036	-0-	-0-	-0-
	<u>\$ 42,837,046</u>	<u>\$ 41,975,979</u>	<u>\$ 846,608</u>	<u>\$ 14,459</u>	<u>\$ -0-</u>
December 31, 2007					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 3,952,292	\$ 3,952,292	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	814,258	189,816	624,442	-0-	-0-
Debt mutual funds	40,652,338	40,635,036	979	16,323	-0-
Equity mutual funds	9,430,186	9,430,186	-0-	-0-	-0-
	<u>\$ 54,849,074</u>	<u>\$ 54,207,330</u>	<u>\$ 625,421</u>	<u>\$ 16,323</u>	<u>\$ -0-</u>

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Concentration of credit risk - The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2008 and 2007:

	2008	2007
Carrying amount		
Deposits	\$ 4,799,840	\$ 8,618,490
Investments	42,837,046	54,849,074
	<u>\$ 47,636,886</u>	<u>\$ 63,467,564</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 4,799,840	\$ 8,618,490
Investments	497,003	522,294
Board designated funded depreciation investments	42,042,983	53,997,153
Other board designated investments	297,060	329,627
	<u>\$ 47,636,886</u>	<u>\$ 63,467,564</u>

7. LONG-TERM DEBT

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

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

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

The bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2008 and 2007, the Hospital was in compliance with the debt coverage ratios.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Progressions for long-term debt for 2008 and 2007 include the following:

	December 31, 2007	Additional Borrowings	Payments	December 31, 2008	Current Portion
Indiana Bond Bank Special Hospital Program Bonds Series 2002D	\$ 7,075,000	\$ -0-	\$ (1,295,000)	\$ 5,780,000	\$ 1,350,000
Indiana Bond Bank Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
	51,990,000	<u>\$ -0-</u>	<u>\$ (1,295,000)</u>	50,695,000	1,350,000
Unamortized loss on bond defeasance	(2,619,601)			(2,501,866)	-0-
Unamortized bond premium	4,925,736			4,694,830	-0-
	<u>\$ 54,296,135</u>			<u>\$ 52,887,964</u>	<u>\$ 1,350,000</u>
	December 31, 2006	Additional Borrowings	Payments	December 31, 2007	Current Portion
Indiana Bond Bank Special Hospital Program Bonds Series 2002D	\$ 55,430,000	\$ -0-	\$ (48,355,000)	\$ 7,075,000	\$ 1,295,000
Indiana Bond Bank Special Program Refunding Bonds Series 2007A	-0-	44,915,000	-0-	44,915,000	-0-
	55,430,000	<u>\$ 44,915,000</u>	<u>\$ (48,355,000)</u>	51,990,000	1,295,000
Unamortized loss on bond defeasance	(310,510)			(2,619,601)	-0-
Unamortized bond premium	491,366			4,925,736	-0-
	<u>\$ 55,610,856</u>			<u>\$ 54,296,135</u>	<u>\$ 1,295,000</u>

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2009	\$ 1,350,000	\$ 2,595,838	\$ 3,945,838
2010	1,405,000	2,532,025	3,937,025
2011	1,475,000	2,460,025	3,935,025
2012	1,550,000	2,384,400	3,934,400
2013	1,575,000	2,306,275	3,881,275
2014-2018	9,125,000	10,218,319	19,343,319
2019-2023	11,765,000	7,500,281	19,265,281
2024-2028	15,195,000	3,980,681	19,175,681
2029-2030	7,255,000	385,744	7,640,744
	<u>\$ 50,695,000</u>	<u>\$ 34,363,588</u>	<u>\$ 85,058,588</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

8. NET PATIENT SERVICE REVENUE

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

Medicare

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

Medicaid

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

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$10,122,000 and \$5,161,000 during 2008 and 2007, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Other Payors

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

Patient service revenue for 2008 and 2007 consists of the following:

	2008	2007
Inpatient routine services	\$ 18,087,494	\$ 16,889,787
Inpatient ancillary services	70,166,241	61,058,976
Outpatient ancillary services	215,442,381	200,450,591
Gross patient service revenue	303,696,116	278,399,354
Contractual allowance	127,379,273	119,018,799
Charity care	3,763,897	3,631,500
Bad debts	13,478,431	10,919,039
Deductions from revenue	140,857,704	129,937,838
Net patient service revenue	<u>\$ 162,838,412</u>	<u>\$ 148,461,516</u>

9. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. The Hospital is required to contribute at an actuarially determined rate. The current rate is 1% of annual covered payroll. The Hospital expects to contribute approximately \$3,000,000 to the Plan in 2009.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The following is a summary of the Plan as of December 31, 2008 (based on actuarial valuation date of January 1, 2008) and December 31, 2007 (based on actuarial valuation date of January 1, 2007):

	2008	2007
Annual required contribution	\$ 2,194,715	\$ 1,824,386
Interest on net pension obligation	37,924	28,990
Adjustment to annual required contribution	(68,526)	(52,383)
Annual pension cost	2,164,113	1,800,993
Contributions made	2,284,964	1,681,875
Change in net pension obligation	(120,851)	119,118
Net pension obligation, beginning of year	505,648	386,530
Net pension obligation, end of year	\$ 384,797	\$ 505,648
Actuarial valuation date	1/1/2008	
Actuarial cost method	Frozen Entry Date	
Amortization method	Level % of Payroll Projected	
Asset valuation method	Market	
	January 1, 2008	January 1, 2007
Actuarial value of assets	\$ 38,169,678	\$ 34,689,000
Accrued actuarial liability	38,389,133	34,853,802
Unfunded actuarial accrued liability	\$ (219,455)	\$ (164,802)
Funded ratio of assets to accrued liability	99.4%	99.5%
Covered payroll	\$ 64,044,390	\$ 57,069,326
Ratio of unfunded liability to covered payroll	0.3%	0.3%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	
Projected salary increases		
Total	6.0%	
Attributed to inflation	Not Available	
Attributed to merit/seniority	Not Available	
Cost of living adjustments	Not Available	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Three Year Trend Information			
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2006	\$ 1,928,309	105.0%	\$ 386,530
December 31, 2007	\$ 1,800,993	93.4%	\$ 505,648
December 31, 2008	\$ 2,164,113	105.6%	\$ 384,797

10. TAX DEFERRED ANNUITY PLAN

Plan Description

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

Funding Policy

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

The Hospital's contributions to the plan for 2008 and 2007 were \$1,475,399 and \$1,421,761, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

11. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2012. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2008 and 2007 was \$2,795,371 and \$2,294,322, respectively. Minimum future payments on leases for the years following December 31, 2008 are as follows:

Year Ending December 31,	
2009	\$ 826,483
2010	460,003
2011	146,086
2012	19,190
	<u>\$ 1,451,762</u>

12. CONCENTRATION OF CREDIT RISK

Hendricks Regional Health is located in Danville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2008 and 2007 was as follows:

	2008	2007
Medicare	22%	25%
Medicaid	5%	4%
Blue Cross	17%	17%
Commercial	20%	24%
Self-Pay and other	36%	30%
	<u>100%</u>	<u>100%</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

13. BLENDED COMPONENT UNITS

The Hospital's consolidated financial statements include the accounts of its Blended Component Units, HAMCO and Foundation. All significant related party transactions have been eliminated from the consolidated financial statements. The following is a summary of the financial position of HAMCO as of and for the years ended December 31, 2008 and 2007:

	2008	2007
Capital assets	\$ 1,203,338	\$ 1,375,262
Other assets	1,913,679	1,497,156
Total assets	<u>\$ 3,117,017</u>	<u>\$ 2,872,418</u>
Total liabilities	\$ 162,022	\$ 111,973
Net assets	<u>2,954,995</u>	<u>2,760,445</u>
Total liabilities and net assets	<u>\$ 3,117,017</u>	<u>\$ 2,872,418</u>
Revenue	\$ 2,843,747	\$ 2,061,268
Expenses	1,863,197	1,676,823
Excess revenue over expenses	<u>\$ 980,550</u>	<u>\$ 384,445</u>

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2008 and 2007:

	2008	2007
Capital assets	\$ -0-	\$ -0-
Other assets	288,440	302,654
Total assets	<u>\$ 288,440</u>	<u>\$ 302,654</u>
Amount payable to the Hospital	\$ 8	\$ -0-
Other liabilities	78,550	77,550
Total liabilities	78,558	77,550
Net assets	<u>209,882</u>	<u>225,104</u>
Total liabilities and net assets	<u>\$ 288,440</u>	<u>\$ 302,654</u>
Operating revenue	\$ -0-	\$ 132,327
Nonoperating revenue	61,296	69,297
Other expenses	(76,518)	(1,511,659)
Depreciation expense	-0-	(74,857)
Change in net assets	(15,222)	(1,384,892)
Net assets, beginning of year	225,104	1,609,996
Net assets, end of year	<u>\$ 209,882</u>	<u>\$ 225,104</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

14. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$125,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was \$9,799,942 and \$9,507,815 for 2008 and 2007, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in balance of health claim liabilities during the past two years are as follows:

	2008	2007
Unpaid claims, beginning of year	\$ 1,925,000	\$ 1,634,570
Incurred claims and changes in estimates	9,799,942	9,507,815
Claim payments	<u>(10,055,254)</u>	<u>(9,217,385)</u>
Unpaid claims, end of year	<u>\$ 1,669,688</u>	<u>\$ 1,925,000</u>

15. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically one to three years. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms ranging from one to three years. As of December 31, 2008 and 2007, the maximum potential amount of future payments under these guarantees was approximately \$210,000.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

In accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners," during the year ended December 31, 2008 and 2007, the Hospital recorded a liability of approximately \$109,500 and \$219,000, respectively. For the fair value of new or modified guarantees entered into during this period with an offsetting asset recorded in other assets on the accompanying balance sheet, which will be amortized over the commitment period.

16. FAIR VALUE OF NON-FINANCIAL INSTRUMENTS

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

Accounts payable and accrued expenses - The carrying amounts reported in the consolidated balance sheets for accounts payable and accrued expenses approximate its fair value.

Estimated third-party payor settlements - The carrying amounts reported in the consolidated balance sheets for estimated third-party payor settlements approximate its fair value.

Long-term debt - The fair value of the Hospital's long-term debt – revenue bonds is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the revenue bonds approximated \$58,342,000 and \$56,710,000 as of December 31, 2008 and 2007, respectively. The carrying value of the revenue bonds was \$50,695,000 and \$51,990,000 as of December 31, 2008 and 2007, respectively.

17. SUBSEQUENT EVENT

During March 2009, the Hospital issued \$75 million of new fixed rate debt through the Indiana Bond Bank that will be used to fund the construction of the new surgical tower.

Domestic and international capital markets for equity and other types of investment securities have continued to be under pressure in the months after December 31, 2008. This has resulted in additional unrealized investment losses through the release date of these financials.

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 3,330,411	\$ 212,018	\$ 1,257,411	\$ -0-	\$ 4,799,840
Investments	497,003	-0-	-0-	-0-	497,003
Patient accounts receivable, net	23,491,132	70,000	-0-	-0-	23,561,132
Inventories	495,987	-0-	302,812	-0-	798,799
Other current assets	1,308,616	500	291,789	(290,349)	1,310,556
Current portion of assets whose use is limited	1,350,000	-0-	-0-	-0-	1,350,000
Total current assets	30,473,149	282,518	1,852,012	(290,349)	32,317,330
Assets whose use is limited					
Board designated funded depreciation investments	42,042,983	-0-	-0-	-0-	42,042,983
Other board designated investments	297,060	-0-	-0-	-0-	297,060
Total assets whose use is limited	42,340,043	-0-	-0-	-0-	42,340,043
Less current portion	1,350,000	-0-	-0-	-0-	1,350,000
Noncurrent assets whose use is limited	40,990,043	-0-	-0-	-0-	40,990,043
Capital assets					
Land	17,828,766	-0-	-0-	-0-	17,828,766
Depreciable capital assets	237,451,446	-0-	1,862,649	(1,152,894)	238,161,201
	255,280,212	-0-	1,862,649	(1,152,894)	255,989,967
Less accumulated depreciation	91,452,825	-0-	659,311	(461,158)	91,650,978
Capital assets, net	163,827,387	-0-	1,203,338	(691,736)	164,338,989
Other assets					
Bond issuance costs, net	792,898	-0-	61,667	-0-	854,565
Physician recruitment and other assets	2,493,470	5,922	-0-	(2,206,922)	292,470
Total other assets	3,286,368	5,922	61,667	(2,206,922)	1,147,035
Total assets	<u>\$ 238,576,947</u>	<u>\$ 288,440</u>	<u>\$ 3,117,017</u>	<u>\$ (3,189,007)</u>	<u>\$ 238,793,397</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2008

	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,350,000	\$ -0-	\$ -0-	\$ -0-	\$ 1,350,000
Accounts payable	4,031,017	78,558	156,330	(290,349)	3,975,556
Accrued salaries and related liabilities	8,053,883	-0-	5,692	-0-	8,059,575
Accrued expenses and other current liabilities	3,523,418	-0-	-0-	-0-	3,523,418
Accrued interest	654,616	-0-	-0-	-0-	654,616
Estimated third-party settlements	136,692	-0-	-0-	-0-	136,692
Total current liabilities	17,749,626	78,558	162,022	(290,349)	17,699,857
Long-term liabilities					
Long-term debt, net of current portion	51,537,964	-0-	-0-	-0-	51,537,964
Physician recruitment liability	109,500	-0-	-0-	-0-	109,500
Total long-term liabilities	51,647,464	-0-	-0-	-0-	51,647,464
Total liabilities	69,397,090	78,558	162,022	(290,349)	69,347,321
Minority interest	-0-	-0-	-0-	748,073	748,073
Net assets					
Invested in capital assets, net of related debt	110,939,423	-0-	1,203,338	(691,736)	111,451,025
Unrestricted	58,240,434	209,882	1,751,657	(2,954,995)	57,246,978
Total net assets	169,179,857	209,882	2,954,995	(3,646,731)	168,698,003
Total liabilities and net assets	\$ 238,576,947	\$ 288,440	\$ 3,117,017	\$ (3,189,007)	\$ 238,793,397

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 162,838,412	\$ -0-	\$ 2,830,664	\$ (2,830,664)	\$ 162,838,412
Other revenue	3,599,555	-0-	-0-	-0-	3,599,555
Total operating revenue	166,437,967	-0-	2,830,664	(2,830,664)	166,437,967
Operating expenses					
Salaries and wages	69,877,377	-0-	154,941	-0-	70,032,318
Employee benefits	19,020,094	-0-	42,851	-0-	19,062,945
Professional medical fees	1,108,716	-0-	-0-	-0-	1,108,716
Other professional fees	12,842,692	-0-	-0-	(2,830,664)	10,012,028
Medical and surgical supplies	10,023,648	-0-	964,713	-0-	10,988,361
Drugs and intravenous solutions	5,257,846	-0-	175,750	-0-	5,433,596
Food	901,258	-0-	-0-	-0-	901,258
Purchased services	11,278,372	-0-	80,861	-0-	11,359,233
Equipment rental	2,791,109	-0-	4,262	-0-	2,795,371
Telephone and utilities	3,252,606	-0-	-0-	-0-	3,252,606
Depreciation and amortization	12,248,685	-0-	334,630	(230,579)	12,352,736
Insurance	903,846	-0-	15,000	-0-	918,846
Other supplies and expenses	4,454,928	76,518	90,189	-0-	4,621,635
Total operating expenses	153,961,177	76,518	1,863,197	(3,061,243)	152,839,649
Operating income (loss) before minority interest	12,476,790	(76,518)	967,467	230,579	13,598,318
Minority Interest	-0-	-0-	-0-	(326,850)	(326,850)
Operating income (loss) after minority interest	12,476,790	(76,518)	967,467	(96,271)	13,271,468
Nonoperating income (expense)					
Investment income (loss) and other	(3,347,449)	61,296	13,884	(653,700)	(3,925,969)
Interest expense	(2,273,173)	-0-	(801)	-0-	(2,273,974)
Total non operating income (expense), net	(5,620,622)	61,296	13,083	(653,700)	(6,199,943)
Other changes in net assets					
Contributions	-0-	-0-	24,000	(24,000)	-0-
Distributions	-0-	-0-	(810,000)	810,000	-0-
Total other changes in net assets	-0-	-0-	(786,000)	786,000	-0-
Change in net assets	6,856,168	(15,222)	194,550	36,029	7,071,525
Net assets					
Beginning of year	162,323,689	225,104	2,760,445	(3,682,760)	161,626,478
End of year	<u>\$ 169,179,857</u>	<u>\$ 209,882</u>	<u>\$ 2,954,995</u>	<u>\$ (3,646,731)</u>	<u>\$ 168,698,003</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 7,452,517	\$ 219,183	\$ 946,790	\$ -0-	\$ 8,618,490
Investments	522,294	-0-	-0-	-0-	522,294
Patient accounts receivable, net	23,839,031	72,000	-0-	-0-	23,911,031
Inventories	516,172	-0-	249,211	-0-	765,383
Other current assets	941,726	-0-	216,155	(216,155)	941,726
Current portion of assets whose use is limited	1,295,000	-0-	-0-	-0-	1,295,000
Total current assets	34,566,740	291,183	1,412,156	(216,155)	36,053,924
Assets whose use is limited					
Board designated funded depreciation investments	53,997,153	-0-	-0-	-0-	53,997,153
Other board designated investments	329,627	-0-	-0-	-0-	329,627
Total assets whose use is limited	54,326,780	-0-	-0-	-0-	54,326,780
Less current portion	1,295,000	-0-	-0-	-0-	1,295,000
Noncurrent assets whose use is limited	53,031,780	-0-	-0-	-0-	53,031,780
Capital assets					
Land	7,321,310	-0-	-0-	-0-	7,321,310
Depreciable capital assets	221,232,505	-0-	1,723,276	(1,152,894)	221,802,887
	228,553,815	-0-	1,723,276	(1,152,894)	229,124,197
Less accumulated depreciation	86,469,679	-0-	348,014	(230,579)	86,587,114
Capital assets, net	142,084,136	-0-	1,375,262	(922,315)	142,537,083
Other assets					
Bond issuance costs, net	848,514	-0-	85,000	-0-	933,514
Physician recruitment and other assets	2,383,974	11,471	0	(2,128,422)	267,023
Total other assets	3,232,488	11,471	85,000	(2,128,422)	1,200,537
Total assets	\$ 232,915,144	\$ 302,654	\$ 2,872,418	\$ (3,266,892)	\$ 232,823,324

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HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 1,295,000	\$ -0-	\$ -0-	\$ -0-	\$ 1,295,000
Accounts payable	4,115,840	77,550	106,549	(216,155)	4,083,784
Accrued salaries and related liabilities	6,779,763	-0-	5,424	-0-	6,785,187
Accrued expenses and other current liabilities	4,211,636	-0-	-0-	-0-	4,211,636
Accrued interest	669,081	-0-	-0-	-0-	669,081
Estimated third-party settlements	300,000	-0-	-0-	-0-	300,000
Total current liabilities	17,371,320	77,550	111,973	(216,155)	17,344,688
Long-term liabilities					
Long-term debt	53,001,135	-0-	-0-	-0-	53,001,135
Physician recruitment liability	219,000	-0-	-0-	-0-	219,000
Total long-term liabilities	53,220,135	-0-	-0-	-0-	53,220,135
Total liabilities	70,591,455	77,550	111,973	(216,155)	70,564,823
Minority interest	-0-	-0-	-0-	632,023	632,023
Net assets					
Invested in capital assets, net of related debt	87,788,001	-0-	1,375,262	(922,315)	88,240,948
Unrestricted	74,535,688	225,104	1,385,183	(2,760,445)	73,385,530
Total net assets	162,323,689	225,104	2,760,445	(3,682,760)	161,626,478
Total liabilities and net assets	\$ 232,915,144	\$ 302,654	\$ 2,872,418	\$ (3,266,892)	\$ 232,823,324

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 148,461,516	\$ -0-	\$ 2,037,824	\$ (2,037,824)	\$ 148,461,516
Other revenue	3,180,573	132,327	-0-	-0-	3,312,900
Total operating revenue	151,642,089	132,327	2,037,824	(2,037,824)	151,774,416
Operating expenses					
Salaries and wages	65,167,154	-0-	133,592	-0-	65,300,746
Employee benefits	17,801,155	-0-	19,881	-0-	17,821,036
Professional medical fees	949,652	-0-	-0-	-0-	949,652
Other professional fees	9,489,395	-0-	-0-	(2,037,824)	7,451,571
Medical and surgical supplies	8,897,997	-0-	961,618	-0-	9,859,615
Drugs and intravenous solutions	4,623,976	-0-	133,957	-0-	4,757,933
Food	837,678	-0-	-0-	-0-	837,678
Purchased services	10,985,049	-0-	36,181	-0-	11,021,230
Equipment rental	2,291,614	-0-	2,708	-0-	2,294,322
Telephone and utilities	2,981,378	-0-	-0-	-0-	2,981,378
Depreciation and amortization	11,034,489	74,857	363,014	(230,579)	11,241,781
Insurance	1,246,648	-0-	3,750	-0-	1,250,398
Other supplies and expenses	4,595,271	134,788	22,122	-0-	4,752,181
Total operating expenses	140,901,456	209,645	1,676,823	(2,268,403)	140,519,521
Operating income (loss) before minority interest	10,740,633	(77,318)	361,001	230,579	11,254,895
Minority interest	-0-	-0-	-0-	(88,023)	(88,023)
Operating income (loss) after minority interest	10,740,633	(77,318)	361,001	142,556	11,166,872
Nonoperating income (expense)					
Investment income (loss) and other	5,544,324	69,297	23,462	(1,449,316)	4,187,767
Interest expense	(2,338,571)	-0-	(18)	-0-	(2,338,589)
Total nonoperating income (expense), net	3,205,753	69,297	23,444	(1,449,316)	1,849,178
Other changes in net assets					
Contributions	-0-	-0-	2,376,000	(2,376,000)	-0-
Transfers	1,376,871	(1,376,871)	-0-	-0-	-0-
Total other changes in net assets	1,376,871	(1,376,871)	2,376,000	(2,376,000)	-0-
Change in net assets	15,323,257	(1,384,892)	2,760,445	(3,682,760)	13,016,050
Net assets					
Beginning of year	147,000,432	1,609,996	-0-	-0-	\$ 148,610,428
End of year	\$ 162,323,689	\$ 225,104	\$ 2,760,445	\$ (3,682,760)	\$ 161,626,478

See report of independent auditors on pages 1 and 2.