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April 7, 2010

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, 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 Hendricks Regional Health, 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



CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



HENDRICKS REGIONAL HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hendricks Regional Health
Danville, Indiana

We have audited the accompanying consolidated balance sheets of Hendricks Regional Health (Hospital) as of December 31, 2009 and 2008 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, 2009 and 2008, 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 as listed in the table of contents 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

March 22, 2010

HENDRICKS REGIONAL HEALTH

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

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

Financial Highlights

- The Hospital's net assets increased approximately \$19,847,000 or 11.7% in 2009.
- The Hospital issued \$75,000,000 of new fixed rate debt through the Indiana Bond Bank that is being used to fund the construction of the new surgical tower and cafeteria.
- The Hospital reported operating income of approximately \$12,857,000 for 2009, representing a slight decrease of approximately \$741,000 in comparison to the year 2008 results.
- The Hospital continued its expansion of facilities and equipment in 2009 as net capital assets increased approximately \$25,764,000.
- The Hospital's assets whose use is limited increased approximately \$59,499,000 as a result of the 2009 debt issue, strong operating income and investment returns.

Using This Annual Report

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

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

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

HENDRICKS REGIONAL HEALTH

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

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

The Balance Sheet and Statement of Revenues and Expenses

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

These two statements report the Hospital's net assets and changes in them. Think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HENDRICKS REGIONAL HEALTH

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

Table 1: Balance Sheets

	2009	2008	Change
Assets			
Current assets	\$ 44,172,779	\$ 32,317,330	\$ 11,855,449
Capital assets, net	190,102,712	164,338,989	25,763,723
Assets whose use is limited	100,489,272	40,990,043	59,499,229
Other assets	2,170,736	1,147,035	1,023,701
Total assets	<u>\$ 336,935,499</u>	<u>\$ 238,793,397</u>	<u>\$ 98,142,102</u>
Liabilities			
Current liabilities	\$ 20,655,813	\$ 17,809,357	\$ 2,846,456
Long-term debt	126,987,109	51,537,964	75,449,145
Total liabilities	147,642,922	69,347,321	78,295,601
Net assets			
Invested in capital assets, net of related debt	59,270,603	111,451,025	(52,180,422)
Held by trustee	33,228,357	-0-	33,228,357
Unrestricted	95,811,681	57,246,978	38,564,703
Net assets - controlling interest	188,310,641	168,698,003	19,612,638
Non-controlling interest	981,936	748,073	233,863
Total net assets	<u>189,292,577</u>	<u>169,446,076</u>	<u>19,846,501</u>
Total liabilities and net assets	<u>\$ 336,935,499</u>	<u>\$ 238,793,397</u>	<u>\$ 98,142,102</u>

The significant changes in the Hospital's assets were capital assets increasing \$25,764,000 and assets whose use is limited increasing \$59,499,000 in 2009 compared to 2008. The increase in assets whose use is limited is the result of the 2009 debt issue, strong operating income and investment returns.

The Hospital entered into a venture with the YMCA of Greater Indianapolis to construct a medical office building and wellness center in Avon, Indiana. Costs incurred through December 31, 2009 were \$3,171,000.

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, 2009 were approximately \$45,384,000. The project is financed mainly through a new debt issue in 2009.

Net assets increased by approximately \$19,847,000 from 2008 through 2009. The increase relates to an excess of revenues over expenses driven from operations and investment returns.

HENDRICKS REGIONAL HEALTH

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

Table 2: Statements of Revenues and Expenses

	2009	2008	Change
Operating revenue			
Net patient service revenue	\$ 161,085,048	\$ 162,838,412	\$ (1,753,364)
Other operating revenue	3,998,170	3,599,555	398,615
Total operating revenue	<u>165,083,218</u>	<u>166,437,967</u>	<u>(1,354,749)</u>
Operating expenses			
Salaries and benefits	89,796,438	89,095,263	701,175
Medical supplies and drugs	17,310,001	16,421,957	888,044
Depreciation and amortization	12,222,315	12,352,736	(130,421)
Other operating expenses	32,897,429	34,969,693	(2,072,264)
Total operating expenses	<u>152,226,183</u>	<u>152,839,649</u>	<u>(613,466)</u>
Operating income	12,857,035	13,598,318	(741,283)
Nonoperating income (expense), net	<u>7,298,220</u>	<u>(6,199,943)</u>	<u>13,498,163</u>
Consolidated change in net assets	20,155,255	7,398,375	12,756,880
Less amount attributable to non-controlling interest	<u>(542,617)</u>	<u>(326,850)</u>	<u>(215,767)</u>
Change in net assets attributable to controlling interest	<u>\$ 19,612,638</u>	<u>\$ 7,071,525</u>	<u>\$ 12,541,113</u>

The Hospital's performance in 2009 was above historical standards with a return on equity of 10.4% compared to prior year's 4.2%. The Hospital's debt service coverage ratio remained strong at approximately 5.3 times.

Total operating revenue decreased approximately \$1,355,000 as increases in inpatient and outpatient revenues were offset by increases in contractual allowances, charity care and bad debt expenses.

Expenses decreased by approximately \$613,000 between 2008 and 2009.

Nonoperating income (expense) increased by approximately \$13,498,000 as result of investment gains in 2009 as the market recovered from significant declines in 2008.

The Hospital's discharges for 2009 declined 8.4% to 5,323 from 2008's total of 5,813; the Hospital's adjusted patient days decreased to 78,788 in 2009 compared to 82,130 in 2008. The decrease in adjusted patient days was due to a slight decline in the Hospital's outpatient volumes.

HENDRICKS REGIONAL HEALTH

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

During 2009, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$3,756,000 compared to payments of \$10,122,000 received in 2008.

Statements of Cash Flows

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

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Cash flow from activities			
Operating	\$ 24,850,935	\$ 25,652,040	\$ (801,105)
Capital and related financing	36,969,170	(37,223,293)	74,192,463
Investing	<u>(27,114,037)</u>	<u>6,563,673</u>	<u>(33,677,710)</u>
Change in cash and cash equivalents	<u>\$ 34,706,068</u>	<u>\$ (5,007,580)</u>	<u>\$ 39,713,648</u>

Total cash and cash equivalents increased by \$34,706,000 in 2009. Operating activities generated cash and cash equivalents of \$24,851,000 during 2009 mainly from strong operating income. Capital and related financing increased cash and cash equivalents by \$36,969,000 during 2009 mainly as the result of new debt issues offset by property and equipment additions. Investing activities decreased cash and cash equivalents by \$27,114,000 due to the classification change between cash equivalents and investments.

Sources of Revenue

During 2009, 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 2009 but only 28% of the Hospital's net patient service revenues.

HENDRICKS REGIONAL HEALTH

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

Following is a table of major sources of gross patient revenues for 2009:

<u>Payor</u>	<u>% of Gross Revenues</u>
Medicare	36.9%
Anthem/Blue Cross	28.7%
Other	6.2%
Self Pay	6.2%
Medicaid	6.0%
United Health Care	4.7%
Sagamore	3.6%
Cigna	3.3%
Unicare	2.2%
Aetna	2.2%
Total	<u>100.0%</u>

The Hospital's patient mix between inpatient and outpatient services is different than other hospital averages. The Hospital's outpatient services represented 73% of the Hospital's gross patient revenue in 2009. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 51% through the first ten months of 2009.

Capital Assets

During 2009, the Hospital invested \$38 million in capital assets before any asset disposals. The change in capital assets is outlined in the following table:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Land and improvements	\$ 24,627,778	\$ 23,917,943	\$ 709,835
Buildings and fixed equipment	156,967,529	154,544,517	2,423,012
Major moveable equipment	63,564,066	60,945,080	2,618,986
Construction in progress	48,698,345	16,582,427	32,115,918
Total capital assets	293,857,718	255,989,967	37,867,751
Less accumulated depreciation	103,755,006	91,650,978	12,104,028
Capital assets - net	<u>\$ 190,102,712</u>	<u>\$ 164,338,989</u>	<u>\$ 25,763,723</u>

HENDRICKS REGIONAL HEALTH

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

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

Debt

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

Economic Outlook

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

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, 2009 AND 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,233,667	\$ 4,799,840
Investments	13,061,943	497,003
Patient accounts receivable, less allowance for uncollectible account of \$6,638,893 in 2009 and \$7,954,477 in 2008	22,003,023	23,561,132
Inventories	857,097	798,799
Other current assets	667,049	1,310,556
Current portion of assets whose use is limited	1,350,000	1,350,000
Total current assets	<u>44,172,779</u>	<u>32,317,330</u>
Assets whose use is limited		
Board designated funded depreciation investments	68,251,589	42,042,983
Held by trustee	33,228,357	-0-
Other board designated investments	359,326	297,060
Total assets whose use is limited	<u>101,839,272</u>	<u>42,340,043</u>
Less current portion	<u>1,350,000</u>	<u>1,350,000</u>
Noncurrent assets whose use is limited	100,489,272	40,990,043
Capital assets		
Land	18,509,748	17,828,766
Depreciable capital assets	275,347,970	238,161,201
	<u>293,857,718</u>	<u>255,989,967</u>
Less accumulated depreciation	<u>103,755,006</u>	<u>91,650,978</u>
Capital assets, net	190,102,712	164,338,989
Other assets	<u>2,170,736</u>	<u>1,147,035</u>
Total assets	<u>\$ 336,935,499</u>	<u>\$ 238,793,397</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED 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	\$ 3,845,000	\$ 1,350,000
Accounts payable	2,648,296	4,085,056
Accrued salaries and related liabilities	6,929,050	8,059,575
Accrued expenses and other current liabilities	2,792,469	3,523,418
Accrued interest	2,153,496	654,616
Estimated third-party settlements	2,287,502	136,692
Total current liabilities	<u>20,655,813</u>	<u>17,809,357</u>
Long-term liabilities		
Long-term debt, net of current portion	<u>126,987,109</u>	<u>51,537,964</u>
Total liabilities	<u>147,642,922</u>	<u>69,347,321</u>
Net assets		
Invested in capital assets, net of related debt	59,270,603	111,451,025
Held by trustee	33,228,357	-0-
Unrestricted	95,811,681	57,246,978
Net assets - controlling interest	<u>188,310,641</u>	<u>168,698,003</u>
Non-controlling interest	981,936	748,073
Total net assets	<u>189,292,577</u>	<u>169,446,076</u>
Total liabilities and net assets	<u>\$ 336,935,499</u>	<u>\$ 238,793,397</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating revenue		
Net patient service revenue	\$ 161,085,048	\$ 162,838,412
Other operating revenue	3,998,170	3,599,555
Total operating revenue	165,083,218	166,437,967
Operating expenses		
Salaries and wages	70,765,817	70,032,318
Employee benefits	19,030,621	19,062,945
Professional medical fees	1,172,955	1,108,716
Other professional fees	9,156,389	10,012,028
Medical and surgical supplies	11,974,395	10,988,361
Drugs and intravenous solutions	5,335,606	5,433,596
Food	875,420	901,258
Purchased services	10,750,554	11,359,233
Equipment rental	2,495,983	2,795,371
Telephone and utilities	3,264,809	3,252,606
Depreciation and amortization	12,222,315	12,352,736
Insurance	1,418,309	918,846
Other supplies and expenses	3,763,010	4,621,635
Total operating expenses	152,226,183	152,839,649
Operating income	12,857,035	13,598,318
Nonoperating income (expense)		
Investment income (loss)	10,039,167	(3,925,969)
Interest expense	(2,740,947)	(2,273,974)
Total nonoperating income (expense), net	7,298,220	(6,199,943)
Consolidated change in net assets	20,155,255	7,398,375
Less amount attributable to non-controlling interest	(542,617)	(326,850)
Change in net assets attributable to controlling interest	\$ 19,612,638	\$ 7,071,525

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	Controlling Interest	Non-controlling Interest	Total
Net asset balances			
December 31, 2007	\$ 161,626,478	\$ 632,023	\$ 162,258,501
Consolidated change in net assets	7,071,525	326,850	7,398,375
Contributions	-0-	24,000	24,000
Distributions	-0-	(234,800)	(234,800)
December 31, 2008	168,698,003	748,073	169,446,076
Consolidated change in net assets	19,612,638	542,617	20,155,255
Contributions	-0-	231,120	231,120
Distributions	-0-	(539,874)	(539,874)
December 31, 2009	\$ 188,310,641	\$ 981,936	\$ 189,292,577

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	2009	2008
Operating activities		
Cash received from patient services	\$ 164,793,967	\$ 163,351,619
Cash paid for salaries, wages and benefits	(90,926,963)	(90,369,651)
Cash paid to vendors and suppliers	(53,014,239)	(50,929,483)
Other receipts, net	3,998,170	3,599,555
Net cash flows from operating activities	24,850,935	25,652,040
Capital and related financing activities		
Acquisition and construction of capital assets	(36,286,550)	(33,443,519)
Contributions from non-controlling interest	231,120	24,000
Dividends to non-controlling interest	(539,874)	(234,800)
Interest on long-term debt	(2,740,947)	(2,273,974)
Proceeds from long-term debt	80,000,000	-0-
Payments for bond premium and issue costs	(1,419,579)	-0-
Principal payments for long-term debt	(2,275,000)	(1,295,000)
Net cash flows from capital and related financing activities	36,969,170	(37,223,293)
Investing activities		
Investment income (loss)	10,039,167	(3,925,969)
Other changes in investments and assets whose use is limited	(37,153,204)	10,489,642
Net cash flows from investing activities	(27,114,037)	6,563,673
Net change in cash and cash equivalents	34,706,068	(5,007,580)
Cash and cash equivalents		
Beginning of year	5,746,128	10,753,708
End of year	\$ 40,452,196	\$ 5,746,128
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 6,233,667	\$ 4,799,840
In investments	13,061,943	-0-
In board designated funds	21,156,586	946,288
Total cash and cash equivalents	\$ 40,452,196	\$ 5,746,128

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

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

	2009	2008
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 12,857,035	\$ 13,598,318
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	12,222,315	12,352,736
Bad debts	14,653,786	13,478,431
Changes in operating assets and liabilities		
Patient accounts receivable	(13,095,677)	(13,128,532)
Inventories	(58,298)	(33,416)
Other current assets	643,507	(368,830)
Other assets	(1,023,701)	53,502
Accounts payable	(3,136,248)	108,228
Accrued salaries and related liabilities	(1,130,525)	(1,274,388)
Accrued expenses and other current liabilities	(730,949)	688,218
Accrued interest	1,498,880	14,465
Estimated third-party settlements	2,150,810	163,308
Net cash flows from operating activities	\$ 24,850,935	\$ 25,652,040
 Supplemental disclosure of cash flows information		
Cash paid for interest, net of interest capitalized of \$2,924,000 in 2009 and \$360,000 in 2008	\$ 1,242,067	\$ 2,259,509
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ 1,699,488	\$ 1,231,510

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

The consolidated financial statements of Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Hendricks County that is attributable to the transactions of the Hospital, its Foundation and controlled subsidiaries. They do not purport to, and do not, present fairly the financial position of Hendricks County as of December 31, 2009 and 2008, the changes in its financial position or its cash flows for the years then ended.

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

Basis of Consolidation

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

Enterprise Fund Accounting

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

Use of Estimates

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

Accounting Standards

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

Cash and Cash Equivalents and Statements of Cash Flows

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

Investments

Investments consist mainly of money market funds in 2009 and certificates of deposit with original maturities of greater than 90 days in 2008. Investments are reported at contract value which approximates fair value.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 2009. Amounts for unresolved cost reports for 2007 through 2009 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2009 and 2008, the Hospital recognized approximately \$-0- and \$6,100 in the statements of revenues and expenses, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Inventories

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

	<u>2009</u>	<u>2008</u>
Medical supplies and other	\$ 540,246	\$ 455,941
Pharmaceutical	<u>316,851</u>	<u>342,858</u>
	<u>\$ 857,097</u>	<u>\$ 798,799</u>

Assets Whose Use is Limited

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

Capital Assets and Depreciation

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

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was \$1,373,515 and \$2,124,986 for 2009 and 2008, respectively.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt. Net assets related to non-controlling interest are reported separately on the consolidated balance sheets.

Consolidated Statements of Revenues and Expenses

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

Charity Care

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

Costs of Borrowing

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$1,953,708 and \$880,956 as of December 31, 2009 and 2008, respectively. Accumulated amortization as of December 31, 2009 and 2008 was \$184,678 and \$88,058, respectively. Amortization expense for the next five succeeding years should approximate \$106,000 per year. Bond issue costs are recorded in other assets on the consolidated balance sheets.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is 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. HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC.

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 2008 consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is March 22, 2010.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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, 2009 AND 2008

2. ACCOUNTING FOR NON-CONTROLLING INTEREST

In 2009, new accounting guidance relative to the presentation of non-controlling interests in financial statements became effective. The Hospital adopted this guidance and reclassified the non-controlling interest as a component of net assets in the consolidated balance sheets and consolidated statements of changes in net assets. In addition, consolidated change in net assets is shown in two components, displaying the portions attributable to both the controlling interest and non-controlling interest, on the consolidated statements of revenues and expenses. The adoption of this pronouncement did not have an effect on consolidated change in net assets for 2008.

3. 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 2009 and 2008 were \$4,398,000 and \$3,763,897, respectively.

4. INVESTMENTS

Investments consist of cash, cash equivalents and certificates of deposit and are reported at contract value which approximates fair value. Investments balances as of December 31, 2009 and 2008 were \$13,061,943 and \$497,003, respectively.

5. ASSETS WHOSE USE IS LIMITED

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following represents assets whose use is limited as of December 31, 2009 and 2008:

	2009	2008
Assets whose use is limited		
Cash and cash equivalents	\$ 21,156,586	\$ 946,288
Investments	80,665,380	41,383,407
Accrued interest receivable	17,306	10,348
	\$ 101,839,272	\$ 42,340,043

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 except for certificates of deposits and money market funds which are carried at contract value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and fixed income obligations. As of December 31, 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
Cash and cash equivalents	\$ 34,218,529	\$ 34,218,529	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,024,943	574,335	450,608	-0-	-0-
Mutual funds - fixed income	60,808,514	60,808,514	-0-	-0-	-0-
Mutual funds - equities	13,849,229	13,849,229	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	\$ 114,901,215	\$ 109,450,607	\$ 450,608	\$ -0-	\$ 5,000,000

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	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-
Mutual funds - fixed income	35,099,114	35,099,114	-0-	-0-	-0-
Mutual funds - equities	5,945,036	5,945,036	-0-	-0-	-0-
	<u>\$ 42,837,046</u>	<u>\$ 41,990,438</u>	<u>\$ 846,608</u>	<u>\$ -0-</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.

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, 2009 and 2008:

	2009	2008
Carrying amount		
Deposits	\$ 6,233,667	\$ 4,799,840
Investments	114,901,215	42,837,046
	<u>\$ 121,134,882</u>	<u>\$ 47,636,886</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 6,233,667	\$ 4,799,840
Investments	13,061,943	497,003
Board designated funded depreciation investments	68,251,589	42,042,983
Held by trustee	33,228,357	-0-
Other board designated investments	359,326	297,060
	<u>\$ 121,134,882</u>	<u>\$ 47,636,886</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

7. 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.

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	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Cash equivalents	13,061,943			
Total investments	<u>\$ 13,061,943</u>			
Assets whose use is limited				
Mutual funds - fixed income	\$ 60,808,514	\$ 60,808,514	\$ -0-	\$ -0-
Mutual funds - equities	13,849,229	13,849,229	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	79,657,743	<u>\$ 74,657,743</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	21,156,586			
Certificates of deposit	1,024,943			
Total assets whose use is limited	<u>\$ 101,839,272</u>			

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Assets				
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	497,003			
Total investments	<u>\$ 497,003</u>			
Assets whose use is limited				
Mutual funds - fixed income	\$ 35,099,114	\$ 35,099,114	\$ -0-	\$ -0-
Mutual funds - equities	5,945,036	5,945,036	-0-	-0-
	41,044,150	<u>\$ 41,044,150</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Cash equivalents	946,288			
Certificates of deposit	349,605			
Total assets whose use is limited	<u>\$ 42,340,043</u>			

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

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

Long-term debt: Fair value of the Hospital's fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2009, the carrying value of the fixed rate long-term debt was \$128,420,000 with a fair value of approximately \$123,456,000.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. CAPITAL ASSETS

Progressions for capital assets for 2009 and 2008 follow:

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

	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	392,412	(2,885,763)	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	34,850,921	(7,985,151)	-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)	(5,252,050)	2,296,427	-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)	(12,352,736)	7,288,872	-0-	(91,650,978)
Capital assets, net	\$ 142,537,083	\$ 22,498,185	\$ (696,279)	\$ -0-	\$ 164,338,989

Construction commitments remaining as of December 31, 2009 were approximately \$32 million.

9. LONG-TERM DEBT

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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

The bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2009 and 2008, the Hospital believed it was in compliance with the debt coverage ratios.

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

Progressions for long-term debt for 2009 and 2008 include the following:

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	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	\$ -0-	\$ (1,295,000)	50,695,000	\$ 1,350,000
Unamortized loss on bond defeasance	(2,619,601)			(2,501,866)	
Unamortized bond premium	4,925,736			4,694,830	
	<u>\$ 54,296,135</u>			<u>\$ 52,887,964</u>	

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2010	\$ 3,845,000	\$ 6,391,975	\$ 10,236,975
2011	3,995,000	6,246,175	10,241,175
2012	4,145,000	6,088,000	10,233,000
2013	4,285,000	5,898,275	10,183,275
2014	4,495,000	5,680,525	10,175,525
2015-2019	26,240,000	24,795,019	51,035,019
2020-2024	34,925,000	17,362,725	52,287,725
2025-2029	42,300,000	6,933,644	49,233,644
2030-2031	4,190,000	97,650	4,287,650
	<u>\$ 128,420,000</u>	<u>\$ 79,493,988</u>	<u>\$ 207,913,988</u>

10. 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:

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 \$3,756,000 and \$10,122,000 during 2009 and 2008, respectively. These programs are administered by the State of Indiana, but rely on Federal funding.

Other Payors

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

	<u>2009</u>	<u>2008</u>
Inpatient routine services	\$ 17,383,388	\$ 18,087,494
Inpatient ancillary services	72,261,958	70,166,241
Outpatient ancillary services	<u>240,347,423</u>	<u>215,442,381</u>
Gross patient service revenue	329,992,769	303,696,116
Contractual allowance	149,855,935	123,615,376
Charity care	4,398,000	3,763,897
Bad debts	<u>14,653,786</u>	<u>13,478,431</u>
Deductions from revenue	<u>168,907,721</u>	<u>140,857,704</u>
Net patient service revenue	<u>\$ 161,085,048</u>	<u>\$ 162,838,412</u>

11. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. The Hospital is required to contribute at an actuarially determined rate. The current rate is 1% of annual covered payroll. The Hospital expects to contribute approximately \$3,120,000 to the Plan in 2010.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following is a summary of the Plan as of December 31, 2009 (based on actuarial valuation date of January 1, 2009) and December 31, 2008 (based on actuarial valuation date of January 1, 2008):

	2009	2008
Annual required contribution	\$ 2,235,559	\$ 2,194,715
Interest on net pension obligation	28,860	37,924
Adjustment to annual required contribution	(46,275)	(68,526)
Annual pension cost	2,218,144	2,164,113
Contributions made	3,000,000	2,284,964
Change in net pension obligation	(781,856)	(120,851)
Net pension obligation, beginning of year	384,797	505,648
Net pension obligation (benefit), end of year	\$ (397,059)	\$ 384,797
Actuarial valuation date	1/1/2009	
Actuarial cost method	Aggregate actuarial cost	
Amortization method	Average remaining service	
Asset valuation method	Market with 5 year phase in	
	January 1, 2009	January 1, 2008
Actuarial value of assets	\$ 34,733,278	\$ 38,169,678
Accrued actuarial liability	38,746,369	38,389,133
Unfunded actuarial accrued liability	\$ (4,013,091)	\$ (219,455)
Funded ratio of assets to accrued liability	89.6%	99.4%
Covered payroll	\$ 67,826,899	\$ 64,004,390
Ratio of unfunded liability to covered payroll	5.9%	0.3%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	
Projected salary increases - average	5.0%	

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
December 31, 2007	\$ 1,800,993	93.4%	\$ 505,648
December 31, 2008	\$ 2,164,113	105.6%	\$ 384,797
December 31, 2009	\$ 2,218,144	135.2%	\$ (397,059)

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. 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 2009 and 2008 were \$10,000 and \$1,475,000, respectively.

13. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2014. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2009 and 2008 was \$2,495,983 and \$2,795,371, respectively. Minimum future payments on leases for the years following December 31, 2009 are as follows:

<u>Year Ending December 31,</u>	
2010	\$ 409,000
2011	217,000
2012	181,000
2013	119,000
2014	42,000
	<u>\$ 968,000</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

14. CONCENTRATION OF CREDIT RISK

Hendricks Regional Health is located in Danville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2009 and 2008 was as follows:

	Receivables		Revenues	
	2009	2008	2009	2008
Medicare	25%	22%	37%	37%
Medicaid	4%	5%	6%	6%
Blue Cross	18%	17%	29%	27%
Commercial	18%	20%	22%	24%
Self-Pay and other	35%	36%	6%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

15. 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, 2009 and 2008:

	2009	2008
Capital assets	\$ 1,120,242	\$ 1,203,338
Other assets	1,888,369	1,913,679
Total assets	<u>\$ 3,008,611</u>	<u>\$ 3,117,017</u>
Total liabilities	\$ 202,049	\$ 162,022
Net assets	2,806,562	2,954,995
Total liabilities and net assets	<u>\$ 3,008,611</u>	<u>\$ 3,117,017</u>
Revenue	\$ 3,354,269	\$ 2,843,747
Expenses	2,152,702	1,863,197
Excess revenue over expenses	<u>\$ 1,201,567</u>	<u>\$ 980,550</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Other assets	\$ 291,249	\$ 288,440
Total assets	<u>\$ 291,249</u>	<u>\$ 288,440</u>
Amount payable to the Hospital	\$ 669	\$ 8
Other liabilities	36,750	78,550
Total liabilities	37,419	78,558
Net assets	253,830	209,882
Total liabilities and net assets	<u>\$ 291,249</u>	<u>\$ 288,440</u>
Revenue	\$ 147,599	\$ 61,296
Expenses	(103,651)	(76,518)
Change in net assets	43,948	(15,222)
Net assets, beginning of year	209,882	225,104
Net assets, end of year	<u>\$ 253,830</u>	<u>\$ 209,882</u>

16. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over \$125,000 a year with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was \$11,064,853 and \$9,799,942 for 2009 and 2008, 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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

	<u>2009</u>	<u>2008</u>
Unpaid claims, beginning of year	\$ 1,669,688	\$ 1,925,000
Incurred claims and changes in estimates	11,064,853	9,799,942
Claim payments	<u>(10,678,598)</u>	<u>(10,055,254)</u>
Unpaid claims, end of year	<u>\$ 2,055,943</u>	<u>\$ 1,669,688</u>

17. 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.

For the fair value of new or modified guarantees entered into during this period with an offsetting asset recorded in other assets on the accompanying balance sheet, which will be amortized over the commitment period. The Hospital recognized an asset and corresponding liability of \$201,648 and \$109,500 as of December 31, 2009 and 2008, respectively.

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 4,862,731	\$ 258,999	\$ 1,111,937	\$ -0-	\$ 6,233,667
Investments	13,061,943	-0-	-0-	-0-	13,061,943
Patient accounts receivable, net	21,971,023	32,000	-0-	-0-	22,003,023
Inventories	482,280	-0-	374,817	-0-	857,097
Other current assets	662,349	250	361,656	(357,206)	667,049
Current portion of assets whose use is limited	1,350,000	-0-	-0-	-0-	1,350,000
Total current assets	42,390,326	291,249	1,848,410	(357,206)	44,172,779
Assets whose use is limited					
Board designated funded depreciation investments	68,251,589	-0-	-0-	-0-	68,251,589
Held by trustee	33,228,357	-0-	-0-	-0-	33,228,357
Other board designated investments	359,326	-0-	-0-	-0-	359,326
Total assets whose use is limited	101,839,272	-0-	-0-	-0-	101,839,272
Less current portion	1,350,000	-0-	-0-	-0-	1,350,000
Noncurrent assets whose use is limited	100,489,272	-0-	-0-	-0-	100,489,272
Capital assets					
Land	18,509,748	-0-	-0-	-0-	18,509,748
Depreciable capital assets	274,327,799	-0-	2,173,065	(1,152,894)	275,347,970
	292,837,547	-0-	2,173,065	(1,152,894)	293,857,718
Less accumulated depreciation	103,393,920	-0-	1,052,823	(691,737)	103,755,006
Capital assets, net	189,443,627	-0-	1,120,242	(461,157)	190,102,712
Other assets	3,955,403	0	39,959	(1,824,626)	2,170,736
Total assets	\$ 336,278,628	\$ 291,249	\$ 3,008,611	\$ (2,642,989)	\$ 336,935,499

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

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

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

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

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 161,085,048	\$ -0-	\$ 3,347,889	\$ (3,347,889)	\$ 161,085,048
Other revenue	3,998,170	-0-	-0-	-0-	3,998,170
Total operating revenue	165,083,218	-0-	3,347,889	(3,347,889)	165,083,218
Operating expenses					
Salaries and wages	70,692,380	-0-	73,437	-0-	70,765,817
Employee benefits	19,018,591	-0-	12,030	-0-	19,030,621
Professional medical fees	1,172,955	-0-	-0-	-0-	1,172,955
Other professional fees	12,504,278	-0-	-0-	(3,347,889)	9,156,389
Medical and surgical supplies	10,721,586	-0-	1,252,809	-0-	11,974,395
Drugs and intravenous solutions	5,210,730	-0-	124,876	-0-	5,335,606
Food	875,420	-0-	-0-	-0-	875,420
Purchased services	10,588,488	-0-	162,066	-0-	10,750,554
Equipment rental	2,490,619	-0-	5,364	-0-	2,495,983
Telephone and utilities	3,264,809	-0-	-0-	-0-	3,264,809
Depreciation and amortization	12,037,715	-0-	415,179	(230,579)	12,222,315
Insurance	1,409,879	-0-	8,430	-0-	1,418,309
Other supplies and expenses	3,560,848	103,651	98,511	-0-	3,763,010
Total operating expenses	153,548,298	103,651	2,152,702	(3,578,468)	152,226,183
Operating income (loss)	11,534,920	(103,651)	1,195,187	230,579	12,857,035
Nonoperating income (expense)					
Investment income (loss) and other	10,543,498	147,599	7,020	(658,950)	10,039,167
Interest expense	(2,740,307)	-0-	(640)	-0-	(2,740,947)
Total non operating income (expense), net	7,803,191	147,599	6,380	(658,950)	7,298,220
Consolidated change in net assets	19,338,111	43,948	1,201,567	(428,371)	20,155,255
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(542,617)	(542,617)
Change in net assets attributable to controlling interests	<u>\$ 19,338,111</u>	<u>\$ 43,948</u>	<u>\$ 1,201,567</u>	<u>\$ (970,988)</u>	<u>\$ 19,612,638</u>

See report of independent auditors on pages 1 and 2.

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	3,286,368	5,922	61,667	(2,206,922)	1,147,035
Total assets	\$ 238,576,947	\$ 288,440	\$ 3,117,017	\$ (3,189,007)	\$ 238,793,397

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	4,140,517	78,558	156,330	(290,349)	4,085,056
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	17,859,126	78,558	162,022	(290,349)	17,809,357
Long-term liabilities					
Long-term debt	51,537,964	-0-	-0-	-0-	51,537,964
Total liabilities	69,397,090	78,558	162,022	(290,349)	69,347,321
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
Net assets - controlling interest	169,179,857	209,882	2,954,995	(3,646,731)	168,698,003
Non-controlling interest	-0-	-0-	-0-	748,073	748,073
Total net assets	169,179,857	209,882	2,954,995	(2,898,658)	169,446,076
Total liabilities and net assets	\$ 238,576,947	\$ 288,440	\$ 3,117,017	\$ (3,189,007)	\$ 238,793,397

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES 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)	12,476,790	(76,518)	967,467	230,579	13,598,318
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 nonoperating income (expense), net	(5,620,622)	61,296	13,083	(653,700)	(6,199,943)
Consolidated change in net assets	6,856,168	(15,222)	980,550	(423,121)	7,398,375
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(326,850)	(326,850)
Change in net assets attributable to controlling interests	\$ 6,856,168	\$ (15,222)	\$ 980,550	\$ (749,971)	\$ 7,071,525

See report of independent auditors on pages 1 and 2.