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April 26, 2012

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

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. 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 the Hendricks Regional Health, as of December 31, 2011 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, 2011 AND 2010

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, 2011 and 2010 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 of America 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, 2011 and 2010, and its consolidated results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as identified in the accompanying table of contents be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

Board of Trustees
Hendricks Regional Health
Danville, Indiana

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Blue & Co., LLC

March 26, 2012

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

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, 2011. 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 \$10,903,000 or 5.5% in 2011.
- The Hospital reported operating income of approximately \$17,525,000 for 2011, representing an increase of approximately \$8,543,000 in comparison to the year 2010 results.
- The Hospital continued its expansion of facilities and equipment in 2011 by adding approximately \$15,000,000 in gross property and equipment. The Hospital disposed of capital assets with a book value of approximately \$2,600,000 pursuant to a physical inventory. These items combined with depreciation expense of approximately \$13,000,000 resulted in net capital assets decreasing approximately \$600,000 from the prior year.
- The Hospital's assets whose use is limited increased approximately \$6,600,000 as a result of solid 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, 2011 AND 2010

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.

Table 1: Balance Sheets

The significant change in the Hospital's assets was in Assets Whose Use is Limited which increased by approximately \$6,617,000 in 2011 compared to 2010 as a result of solid operating income and investment returns.

In 2009, 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, 2011 and 2010 were approximately \$16,407,000 and \$10,941,000, respectively. During 2011 and 2010, the Hospital contributed assets to the YMCA of approximately \$1,833,100 and \$3,125,000, respectively, in support of the project.

Net assets increased by approximately \$10,903,000 from 2010 through 2011. The increase relates to a solid operating income driven from operations.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

	2011	2010	Change 2011 - 2010	2009
Assets				
Current assets	\$ 43,344,868	\$ 41,101,612	\$ 2,243,256	\$ 46,667,779
Capital assets, net	208,365,362	208,952,484	(587,122)	190,102,712
Assets whose use is limited	94,125,780	87,508,387	6,617,393	97,994,272
Other assets	2,416,484	1,999,696	416,788	2,170,736
Total assets	<u>\$ 348,252,494</u>	<u>\$ 339,562,179</u>	<u>\$ 8,690,315</u>	<u>\$ 336,935,499</u>
Liabilities				
Current liabilities	\$ 21,168,298	\$ 19,105,653	\$ 2,062,645	\$ 20,655,813
Long-term debt	118,585,941	122,861,525	(4,275,584)	126,987,109
Total liabilities	139,754,239	141,967,178	(2,212,939)	147,642,922
Net assets				
Invested in capital assets, net of related debt	85,634,421	82,095,959	3,538,462	59,270,603
Restricted for debt service	8,583,943	9,088,535	(504,592)	33,228,357
Unrestricted	112,998,080	104,992,418	8,005,662	95,811,681
Net assets - controlling interest	207,216,444	196,176,912	11,039,532	188,310,641
Non-controlling interest	1,281,811	1,418,089	(136,278)	981,936
Total net assets	<u>208,498,255</u>	<u>197,595,001</u>	<u>10,903,254</u>	<u>189,292,577</u>
Total liabilities and net assets	<u>\$ 348,252,494</u>	<u>\$ 339,562,179</u>	<u>\$ 8,690,315</u>	<u>\$ 336,935,499</u>

Table 2: Statements of Revenues and Expenses

The Hospital's performance in 2011 was solid with a return on equity of 5.6% compared to prior year's 4.4%.

Total operating revenue increased approximately \$15,849,000 as utilization in inpatient and outpatient services increased.

Expenses increased by approximately \$7,306,000 between 2010 and 2011.

Nonoperating income (expense) decreased by approximately \$6,996,000 due to investment income of approximately \$1,836,000 in 2011 compared to \$7,181,000 in 2010 and interest expense increasing approximately \$1,651,000 over 2010.

The Hospital's discharges for 2011 increased 9.2% to 5,563 from 2010's total of 5,094; the Hospital's patient days increased 7.5% to 20,404 in 2011 compared to 18,982 in 2010.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

During 2011, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments totaling \$3,391,000 compared to payments of \$3,645,000 received in 2010.

	2011	2010	Change 2011 - 2010	2009
Operating revenue				
Net patient service revenue	\$ 181,876,427	\$ 165,983,709	\$ 15,892,718	\$ 161,085,048
Other operating revenue	4,219,722	4,263,663	(43,941)	2,284,170
Total operating revenue	186,096,149	170,247,372	15,848,777	163,369,218
Operating expenses				
Salaries and benefits	97,127,231	93,793,377	3,333,854	89,796,438
Medical supplies and drugs	20,749,486	19,759,109	990,377	17,310,001
Depreciation and amortization	13,012,018	12,553,011	459,007	12,222,315
Other operating expenses	37,682,305	35,159,275	2,523,030	31,183,429
Total operating expenses	168,571,040	161,264,772	7,306,268	150,512,183
Operating income	17,525,109	8,982,600	8,542,509	12,857,035
Nonoperating income (expense), net	(4,110,406)	2,885,402	(6,995,808)	7,298,220
Consolidated change in net assets before special item	13,414,703	11,868,002	1,546,701	20,155,255
Special item				
Contribution	(1,833,100)	(3,124,909)	1,291,809	-0-
Consolidated change in net assets	11,581,603	8,743,093	2,838,510	20,155,255
Less amount attributable to non-controlling interest	(542,071)	(876,822)	334,751	(542,617)
Change in net assets attributable to controlling interest	\$ 11,039,532	\$ 7,866,271	\$ 3,173,261	\$ 19,612,638

Statements of Changes in Net Assets

Net assets increased approximately \$10,903,000 in 2011 and \$8,302,000 in 2010 including contributions and distributions for non-controlling interest. The following is a net asset progression:

	2011	2010	2009
Net assets, beginning of year	\$ 197,595,001	\$ 189,292,577	\$ 169,446,076
Consolidated change in net assets	11,581,603	8,743,093	20,155,255
Contributions	18,940	108,640	231,120
Distributions	(697,289)	(549,309)	(539,874)
Net assets, end of year	\$ 208,498,255	\$ 197,595,001	\$ 189,292,577

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

Statements of Cash Flows

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

Total cash and cash equivalents increased approximately \$6,012,000 in 2011. Operating activities generated cash and cash equivalents of \$31,790,000 during 2011 mainly from strong operating income. Capital and related financing decreased cash and cash equivalents by \$24,928,000 during 2011 mainly as the result of expenditures for property and equipment additions. Investing activities decreased cash and cash equivalents by \$850,000 due to investment activity.

	2011	2010	Change 2011 - 2010	2009
Cash flow from activities				
Operating	\$ 31,790,178	\$ 18,691,164	\$ 13,099,014	\$ 23,352,055
Capital and related financing	(24,928,164)	(42,378,941)	17,450,777	38,468,050
Investing	(849,889)	5,739,569	(6,589,458)	(27,114,037)
Change in cash and cash equivalents	<u>\$ 6,012,125</u>	<u>\$ (17,948,208)</u>	<u>\$ 23,960,333</u>	<u>\$ 34,706,068</u>

Sources of Revenue

During 2011, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 46% of the Hospital's gross revenues in 2011 but only 23% of the Hospital's net patient service revenues. Following is a table of major sources of gross patient revenues for 2011:

Payor	% of Gross Revenues
Medicare	40.1%
Anthem/Blue Cross	29.3%
Other	5.9%
Self Pay	6.3%
Medicaid	6.3%
United Health Care	5.1%
Others	7.0%
Total	<u>100.0%</u>

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

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 2011. According to the Indiana Hospital Association's IHA Databank, the State of Indiana's average outpatient percent of total charges was approximately 51% for 2011.

Capital Assets

During 2011, the Hospital invested approximately \$2,108,000 in capital assets net of asset disposals. The change in capital assets is outlined in the following table:

	2011	2010	Change 2011 - 2010	2009
Land and improvements	\$ 22,848,924	\$ 24,874,428	\$ (2,025,504)	\$ 24,627,778
Buildings and fixed equipment	233,768,989	217,881,954	15,887,035	156,967,529
Major moveable equipment	68,112,070	70,855,190	(2,743,120)	63,564,066
Construction in progress	2,638,246	11,648,929	(9,010,683)	48,698,345
Total capital assets	327,368,229	325,260,501	2,107,728	293,857,718
Less accumulated depreciation	119,002,867	116,308,017	2,694,850	103,755,006
Capital assets - net	<u>\$ 208,365,362</u>	<u>\$ 208,952,484</u>	<u>\$ (587,122)</u>	<u>\$ 190,102,712</u>

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

Debt

Total debt decreased from \$124,575,000 to \$120,580,000 in 2011 due to normal principal payments. More detailed information about the Hospital's long-term debt is presented in the Notes to the Consolidated Financial Statements.

HENDRICKS REGIONAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2011 AND 2010

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, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	\$ 7,722,229	\$ 4,881,383
Investments	7,042,788	8,083,121
Patient accounts receivable, less allowance for uncollectible account of \$10,501,828 in 2011 and \$7,772,881 in 2010	22,432,573	22,493,863
Inventories	847,537	817,783
Other current assets	1,154,741	830,462
Current portion of assets whose use is limited	4,145,000	3,995,000
Total current assets	43,344,868	41,101,612
Assets whose use is limited		
Board designated funded depreciation investments	89,309,708	82,082,003
Held by trustee for debt service	8,583,943	9,088,535
Other board designated investments	377,129	332,849
Total assets whose use is limited	98,270,780	91,503,387
Less current portion	4,145,000	3,995,000
Noncurrent assets whose use is limited	94,125,780	87,508,387
Capital assets		
Land	16,876,853	18,731,398
Depreciable capital assets	310,491,376	306,529,103
	327,368,229	325,260,501
Less accumulated depreciation	119,002,867	116,308,017
Capital assets, net	208,365,362	208,952,484
Other assets	2,416,484	1,999,696
Total assets	\$ 348,252,494	\$ 339,562,179

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Current portion of long-term debt	\$ 4,145,000	\$ 3,995,000
Accounts payable	3,802,960	3,464,536
Accrued salaries and related liabilities	8,389,328	7,388,488
Accrued expenses and other current liabilities	1,760,265	1,470,101
Accrued interest	2,055,496	2,105,433
Estimated third-party settlements	1,015,249	682,095
Total current liabilities	21,168,298	19,105,653
Long-term liabilities		
Long-term debt, net of current portion	118,585,941	122,861,525
Total liabilities	139,754,239	141,967,178
Net assets		
Invested in capital assets, net of related debt	85,634,421	82,095,959
Restricted for debt service	8,583,943	9,088,535
Unrestricted	112,998,080	104,992,418
Net assets - controlling interest	207,216,444	196,176,912
Non-controlling interest	1,281,811	1,418,089
Total net assets	208,498,255	197,595,001
Total liabilities and net assets	\$ 348,252,494	\$ 339,562,179

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating revenue		
Net patient service revenue	\$ 181,876,427	\$ 165,983,709
Other operating revenue	<u>4,219,722</u>	<u>4,263,663</u>
Total operating revenue	186,096,149	170,247,372
Operating expenses		
Salaries and wages	75,177,482	73,956,181
Employee benefits	21,949,749	19,837,196
Professional medical fees	1,346,221	1,240,762
Other professional fees	11,384,170	9,177,450
Medical and surgical supplies	14,063,477	13,084,542
Drugs and intravenous solutions	6,686,009	6,674,567
Food	890,507	915,603
Purchased services	11,188,417	11,660,588
Equipment rental	2,929,025	2,709,394
Telephone and utilities	3,583,016	3,533,346
Depreciation and amortization	13,012,018	12,553,011
Insurance	1,503,643	1,656,788
Other supplies and expenses	<u>4,857,306</u>	<u>4,265,344</u>
Total operating expenses	168,571,040	161,264,772
Operating income	17,525,109	8,982,600
Nonoperating income (expense)		
Investment income	1,836,476	7,181,370
Interest expense	<u>(5,946,882)</u>	<u>(4,295,968)</u>
Total nonoperating income (expense), net	(4,110,406)	2,885,402
Consolidated change in net assets before special item	13,414,703	11,868,002
Special item		
Contribution	<u>(1,833,100)</u>	<u>(3,124,909)</u>
Consolidated change in net assets	11,581,603	8,743,093
Less amount attributable to non-controlling interest	<u>(542,071)</u>	<u>(876,822)</u>
Change in net assets attributable to controlling interest	<u>\$ 11,039,532</u>	<u>\$ 7,866,271</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2011 AND 2010

	Controlling Interest	Non-controlling Interest	Total
Net asset balances			
December 31, 2009	\$ 188,310,641	\$ 981,936	\$ 189,292,577
Consolidated change in net assets	7,866,271	876,822	8,743,093
Contributions	-0-	108,640	108,640
Distributions	-0-	(549,309)	(549,309)
December 31, 2010	196,176,912	1,418,089	197,595,001
Consolidated change in net assets	11,039,532	542,071	11,581,603
Contributions	-0-	18,940	18,940
Distributions	-0-	(697,289)	(697,289)
December 31, 2011	<u>\$ 207,216,444</u>	<u>\$ 1,281,811</u>	<u>\$ 208,498,255</u>

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Cash received from patient services	\$ 182,270,871	\$ 163,887,462
Cash paid for salaries, wages and benefits	(96,126,391)	(93,333,939)
Cash paid to vendors and suppliers	(58,574,024)	(54,412,022)
Other receipts, net	4,219,722	2,549,663
Net cash flows from operating activities	31,790,178	18,691,164
Capital and related financing activities		
Acquisition and construction of capital assets	(15,035,052)	(30,624,332)
Contributions from non-controlling interest	18,940	108,640
Dividends to non-controlling interest	(697,289)	(549,309)
Loss of disposal of property and equipment	2,595,156	-0-
Proceeds from disposal of property and equipment	15,000	-0-
Contribution for property	(1,833,100)	(3,124,909)
Interest on long-term debt	(5,996,819)	(4,344,031)
Principal payments for long-term debt	(3,995,000)	(3,845,000)
Net cash flows from capital and related financing activities	(24,928,164)	(42,378,941)
Investing activities		
Investment income	1,836,476	7,181,370
Purchase of investments	(9,666,288)	(20,568,936)
Proceeds from sale of investments	6,979,923	19,127,135
Net cash flows from investing activities	(849,889)	5,739,569
Net change in cash and cash equivalents	6,012,125	(17,948,208)
Cash and cash equivalents		
Beginning of year	22,503,988	40,452,196
End of year	\$ 28,516,113	\$ 22,503,988
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets - cash and cash equivalents	\$ 7,722,229	\$ 4,881,383
In investments	6,227,175	7,302,633
In board designated funds	14,566,709	10,319,972
Total cash and cash equivalents	\$ 28,516,113	\$ 22,503,988

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 17,525,109	\$ 8,982,600
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	13,012,018	12,553,011
Bad debts	17,052,042	16,072,736
Changes in operating assets and liabilities		
Patient accounts receivable	(16,990,752)	(16,563,576)
Inventories	(29,754)	39,314
Other current assets	(324,279)	(163,413)
Other assets	(416,788)	171,040
Accounts payable	338,424	67,789
Accrued salaries and related liabilities	1,000,840	459,438
Accrued expenses and other current liabilities	290,164	(1,322,368)
Estimated third-party settlements	333,154	(1,605,407)
Net cash flows from operating activities	<u>\$ 31,790,178</u>	<u>\$ 18,691,164</u>
 Supplemental disclosure of cash flows information		
Cash paid for interest, net of interest capitalized of \$-0- in 2011 and \$1,790,000 in 2010	\$ 5,996,819	\$ 4,344,031
 Noncash capital and related financing activities		
Property purchases in accounts payable	\$ -0-	\$ 778,451

See accompanying notes to consolidated financial statements.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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 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, 2011 AND 2010

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in the year the cost report is settled. Amounts for unresolved cost reports for 2007 through 2011 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2011 and 2010, the Hospital recognized \$-0- 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.

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:

	2011	2010
Medical supplies and other	\$ 467,011	\$ 458,811
Pharmaceutical	380,526	358,972
	<u>\$ 847,537</u>	<u>\$ 817,783</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was approximately \$1,295,000 and \$1,552,000 for 2011 and 2010, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets include net assets held by trustee for debt service requirements. 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.

Non-controlling Interest

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

Consolidated Statements of Revenues and Expenses

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

Special Item

A special item is a significant transaction or event that is either unusual in nature or infrequent in occurrence. During 2011 and 2010, the Hospital recorded a special item of approximately \$1,833,000 and \$3,125,000, respectively, related to a donation of property and equipment to an unrelated not-for-profit in connection with a Hospital expansion project.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care charges provided during 2011 and 2010 were approximately \$5,285,000 and \$4,645,000, respectively.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Of the Hospital's total expenses reported (approximately \$174,519,000, including interest expense, in 2011 and \$165,561,000, including interest expense, in 2010), an estimated \$2,297,000 and \$2,188,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

Costs of Borrowing

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

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were approximately \$1,954,000 as of December 31, 2011 and 2010. Accumulated amortization as of December 31, 2011 and 2010 was approximately \$397,000 and \$292,000, respectively. Amortization expense for the next five succeeding years should approximate \$105,000 per year. Bond issue costs are recorded in other assets on the consolidated balance sheets.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The Foundation has filed its federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

HAMCO is a Limited Liability Company (LLC) and profit and loss are passed through to the members of the LLC. HAMCO has filed its federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital, Foundation, and HAMCO and recognize a tax liability if these organizations have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these organizations, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Foundation and HAMCO are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Compensated Absences

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

Reclassifications

Certain amounts from the 2010 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications have no effect on previously reported net assets or change in net assets.

Litigation

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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.

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 26, 2012.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

2. INVESTMENTS

Investments consist of cash, cash equivalents and certificates of deposit which are reported at contract value which approximates fair value. Mutual funds are reported at fair value. Investments balances as of December 31, 2011 and 2010 were \$7,042,788 and \$8,083,121, respectively.

3. ASSETS WHOSE USE IS LIMITED

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

The following represents assets whose use is limited as of December 31, 2011 and 2010:

	2011	2010
Assets whose use is limited		
Cash and cash equivalents	\$ 14,566,709	\$ 10,319,972
Investments	83,701,592	81,168,566
Accrued interest receivable	2,479	14,849
	<u>\$ 98,270,780</u>	<u>\$ 91,503,387</u>

4. DEPOSITS AND INVESTMENTS

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

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

As of December 31, 2011 and 2010, 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, 2011					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 20,793,884	\$ 20,793,884	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,417,440	1,040,315	377,125	-0-	-0-
Mutual funds	78,102,244	78,102,244	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 105,313,568</u>	<u>\$ 99,936,443</u>	<u>\$ 377,125</u>	<u>\$ -0-</u>	<u>\$ 5,000,000</u>

December 31, 2010					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 17,622,605	\$ 17,622,605	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	1,077,593	712,549	365,044	-0-	-0-
Mutual funds	75,886,310	75,886,310	-0-	-0-	-0-
Fixed income obligations	5,000,000	-0-	-0-	-0-	5,000,000
	<u>\$ 99,586,508</u>	<u>\$ 94,221,464</u>	<u>\$ 365,044</u>	<u>\$ -0-</u>	<u>\$ 5,000,000</u>

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

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Deposits and investments consist of the following as of December 31, 2011 and 2010:

	2011	2010
Carrying amount		
Deposits	\$ 7,722,229	\$ 4,881,383
Investments	105,313,568	99,586,508
	<u>\$ 113,035,797</u>	<u>\$ 104,467,891</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 7,722,229	\$ 4,881,383
Investments	7,042,788	8,083,121
Board designated funded depreciation investments	89,309,708	82,082,003
Held by trustee for debt service	8,583,943	9,088,535
Other board designated investments	377,129	332,849
	<u>\$ 113,035,797</u>	<u>\$ 104,467,891</u>

5. FAIR VALUE MEASUREMENTS

During 2011, the Hospital changed its accounting policies to expand the level of detail provided on the assets by disaggregating mutual funds by investment objective. The change was made to adopt Financial Accounting Standards Board's Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

The Hospital's investments are reported at fair value in the accompanying consolidated balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of the Hospital's investments that fall under each category and the valuation methodologies used to measure these investments at fair value.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date.

The fair value of mutual funds is based on quoted net asset values of the shares held by the Hospital at year-end. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The net asset value is quoted in an active market.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.

The fair value of the fixed income obligations is based on the closing price reported on the active market on which the individual securities are traded, when available. The fair value of fixed income obligations for which quoted market price is not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 are as follows:

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Total return bond funds	\$ 815,613	\$ 815,613	\$ -0-	\$ -0-
Cash and cash equivalents	6,227,175			
Total investments	<u>\$ 7,042,788</u>			
Assets whose use is limited				
Mutual funds				
Total return bond funds	\$ 61,541,881	\$ 61,541,881	\$ -0-	\$ -0-
Small-cap value funds	3,445,635	3,445,635	-0-	-0-
Growth funds	2,566,667	2,566,667	-0-	-0-
Large blend funds	9,732,448	9,732,448	-0-	-0-
Total mutual funds	77,286,631	77,286,631	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	82,286,631	<u>\$ 77,286,631</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	14,566,709			
Certificates of deposit	1,417,440			
Total assets whose use is limited	<u>\$ 98,270,780</u>			
	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds				
Total return bond funds	\$ 780,488	\$ 780,488	\$ -0-	\$ -0-
Cash and cash equivalents	7,302,633			
Total investments	<u>\$ 8,083,121</u>			
Assets whose use is limited				
Mutual funds				
Total return bond funds	\$ 59,050,258	\$ 59,050,258	\$ -0-	\$ -0-
Small-cap value funds	3,552,101	3,552,101	-0-	-0-
Growth funds	2,970,264	2,970,264	-0-	-0-
Large blend funds	9,533,199	9,533,199	-0-	-0-
Total mutual funds	75,105,822	75,105,822	-0-	-0-
Fixed income obligations	5,000,000	-0-	5,000,000	-0-
	80,105,822	<u>\$ 75,105,822</u>	<u>\$ 5,000,000</u>	<u>\$ -0-</u>
Cash equivalents	10,319,972			
Certificates of deposit	1,077,593			
Total assets whose use is limited	<u>\$ 91,503,387</u>			

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Long-term debt: Fair value of the Hospital's fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2011, the carrying value of the fixed rate long-term debt was \$120,580,000 with a fair value of approximately \$133,560,000.

6. CAPITAL ASSETS

Progressions for capital assets for 2011 and 2010 follow:

	December 31, 2010	Additions	Disposals	Transfers	December 31, 2011
Land	\$ 18,731,398	\$ 20,455	\$ (1,875,000)	\$ -0-	\$ 16,876,853
Land improvements	6,143,030	17,000	(168,516)	(19,443)	5,972,071
Buildings and fixed equipment	217,881,954	1,414,120	(2,659,497)	17,132,412	233,768,989
Major movable equipment	70,855,190	5,463,690	(8,206,810)	-0-	68,112,070
Construction in progress	11,648,929	8,119,787	(17,501)	(17,112,969)	2,638,246
Total capital assets	325,260,501	15,035,052	(12,927,324)	-0-	327,368,229
Less accumulated depreciation					
Land improvements	(2,893,252)	(295,454)	211,407	(19,443)	(2,996,742)
Buildings and fixed equipment	(62,695,666)	(7,286,216)	2,095,776	19,443	(67,866,663)
Major movable equipment	(50,719,099)	(5,430,348)	8,009,985	-0-	(48,139,462)
Total accumulated depreciation	(116,308,017)	(13,012,018)	10,317,168	-0-	(119,002,867)
Capital assets, net	<u>\$ 208,952,484</u>	<u>\$ 2,023,034</u>	<u>\$ (2,610,156)</u>	<u>\$ -0-</u>	<u>\$ 208,365,362</u>
	December 31, 2009	Additions	Disposals	Transfers	December 31, 2010
Land	\$ 18,509,748	\$ 221,650	\$ -0-	\$ -0-	\$ 18,731,398
Land improvements	6,118,030	25,000	-0-	-0-	6,143,030
Buildings and fixed equipment	156,967,529	787,465	-0-	60,126,960	217,881,954
Major movable equipment	63,564,066	7,291,124	-0-	-0-	70,855,190
Construction in progress	48,698,345	23,077,544	-0-	(60,126,960)	11,648,929
Total capital assets	293,857,718	31,402,783	-0-	-0-	325,260,501
Less accumulated depreciation					
Land improvements	(2,603,263)	(289,989)	-0-	-0-	(2,893,252)
Buildings and fixed equipment	(56,060,942)	(6,634,724)	-0-	-0-	(62,695,666)
Major movable equipment	(45,090,801)	(5,628,298)	-0-	-0-	(50,719,099)
Total accumulated depreciation	(103,755,006)	(12,553,011)	-0-	-0-	(116,308,017)
Capital assets, net	<u>\$ 190,102,712</u>	<u>\$ 18,849,772</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 208,952,484</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Construction commitments remaining as of December 31, 2011 were approximately \$490,000.

7. LONG-TERM DEBT

The Hospital issued Indiana Bond Bank Special Program Refunding Bonds, Series 2007A dated May 24, 2007 in the amount of \$44,915,000. The 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 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.

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, 2011 and 2010, the Hospital believed it was in compliance with the debt coverage ratios.

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Progressions for long-term debt for 2011 and 2010 include the following:

	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
Indiana Bond Bank					
Special Hospital Program Bonds Series 2002D	\$ 3,025,000	\$ -0-	\$ (1,475,000)	\$ 1,550,000	\$ 1,550,000
Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
Special Hospital Program Bonds Series 2009A	71,635,000	-0-	(2,520,000)	69,115,000	2,595,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>124,575,000</u>	<u>\$ -0-</u>	<u>\$ (3,995,000)</u>	<u>120,580,000</u>	<u>\$ 4,145,000</u>
Unamortized loss on bond defeasance	(2,266,396)			(2,148,661)	
Unamortized bond premium	<u>4,547,921</u>			<u>4,299,602</u>	
	<u>\$ 126,856,525</u>			<u>\$ 122,730,941</u>	
	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
Indiana Bond Bank					
Special Hospital Program Bonds Series 2002D	\$ 4,430,000	\$ -0-	\$ (1,405,000)	\$ 3,025,000	\$ 1,475,000
Special Program Refunding Bonds Series 2007A	44,915,000	-0-	-0-	44,915,000	-0-
Special Hospital Program Bonds Series 2009A	74,075,000	-0-	(2,440,000)	71,635,000	2,520,000
Indiana Taxable Economic Development Revenue Bonds, Series 2009	5,000,000	-0-	-0-	5,000,000	-0-
	<u>128,420,000</u>	<u>\$ -0-</u>	<u>\$ (3,845,000)</u>	<u>124,575,000</u>	<u>\$ 3,995,000</u>
Unamortized loss on bond defeasance	(2,384,131)			(2,266,396)	
Unamortized bond premium	<u>4,796,240</u>			<u>4,547,921</u>	
	<u>\$ 130,832,109</u>			<u>\$ 126,856,525</u>	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
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	4,720,000	5,452,025	10,172,025
2016	4,960,000	5,209,625	10,169,625
2017-2021	29,510,000	22,104,513	51,614,513
2022-2026	38,685,000	13,604,331	52,289,331
2027-2030	29,780,000	2,818,544	32,598,544
	<u>\$ 120,580,000</u>	<u>\$ 66,855,838</u>	<u>\$ 187,435,838</u>

8. NET PATIENT SERVICE REVENUE

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

Medicare

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

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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 \$3,391,000 and \$3,645,000 during 2011 and 2010, 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.

Patient service revenue for 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Inpatient routine services	\$ 22,006,209	\$ 19,206,949
Inpatient ancillary services	96,490,436	77,602,492
Outpatient ancillary services	<u>285,829,388</u>	<u>257,488,205</u>
Gross patient service revenue	404,326,033	354,297,646
Contractual allowance	200,112,564	167,596,201
Charity care	5,285,000	4,645,000
Bad debts	<u>17,052,042</u>	<u>16,072,736</u>
Deductions from revenue	<u>222,449,606</u>	<u>188,313,937</u>
Net patient service revenue	<u>\$ 181,876,427</u>	<u>\$ 165,983,709</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

9. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

The contribution requirements of Plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. The Hospital is required to contribute at an actuarially determined rate. The current rate is 1% of annual covered payroll. The Hospital expects to contribute approximately \$750,000 to the Plan in 2012.

The following is a summary of the Plan as of December 31, 2011 (based on actuarial valuation date of January 1, 2011) and December 31, 2010 (based on actuarial valuation date of January 1, 2010):

	2011	2010
Annual required contribution	\$ 1,613,170	\$ 1,737,544
Interest on net pension obligation	(135,491)	(29,779)
Adjustment to annual required contribution	229,721	47,750
Annual pension cost	1,707,400	1,755,515
Contributions made	750,000	3,165,000
Change in net pension obligation	957,400	(1,409,485)
Net pension benefit, beginning of year	(1,806,544)	(397,059)
Net pension benefit, end of year	\$ (849,144)	\$ (1,806,544)
Actuarial valuation date	1/1/2011	
Actuarial cost method	Aggregate actuarial cost	
Amortization method	Average remaining service	
Asset valuation method	Market	

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

	January 1, 2011	January 1, 2010
Actuarial value of assets	\$ 47,777,119	\$ 43,170,509
Accrued actuarial liability	45,354,213	42,489,692
Unfunded actuarial accrued liability	<u>\$ 2,422,906</u>	<u>\$ 680,817</u>
Funded ratio of assets to accrued liability	105.3%	101.6%
Covered payroll	\$ 74,645,517	\$ 72,800,013
Ratio of unfunded liability to covered payroll	-3.2%	-0.9%
<u>Actuarial assumptions</u>		
Investment rate of return	7.5%	7.5%
Projected salary increases - average	5.0%	5.0%

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Benefit)
December 31, 2009	\$ 2,218,144	135.2%	\$ (397,059)
December 31, 2010	\$ 1,755,515	180.3%	\$ (1,806,544)
December 31, 2011	\$ 1,707,400	43.9%	\$ (849,144)

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.

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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 2011 and 2010 were \$797,000 and \$775,000, respectively.

11. RENTAL EXPENSE

The Hospital has leases expiring at various times through 2016. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense, including cancelable and non-cancelable leases, for 2011 and 2010 was \$2,929,025 and \$2,709,394, respectively. Minimum future payments on leases for the years following December 31, 2011 are as follows:

<u>Year Ending December 31,</u>	
2012	\$ 489,600
2013	428,000
2014	348,100
2015	284,300
2016	59,400
	<u>\$ 1,609,400</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

12. CONCENTRATION OF CREDIT RISK

Hendricks Regional Health is located in Danville, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors as of December 31, 2011 and 2010 was as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Medicare	29%	26%	40%	38%
Medicaid	6%	5%	6%	6%
Blue Cross	15%	19%	30%	30%
Commercial	18%	17%	17%	19%
Self-Pay and other	32%	33%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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, 2011 and 2010:

	2011	2010
Capital assets	\$ 678,319	\$ 822,147
Other assets	2,313,423	2,334,187
Total assets	<u>\$ 2,991,742</u>	<u>\$ 3,156,334</u>
Total liabilities	\$ 163,997	\$ 174,935
Net assets	<u>2,827,745</u>	<u>2,981,399</u>
Total liabilities and net assets	<u>\$ 2,991,742</u>	<u>\$ 3,156,334</u>
Revenue	\$ 3,894,536	\$ 3,736,105
Expenses	2,608,190	2,391,268
Excess revenue over expenses	<u>\$ 1,286,346</u>	<u>\$ 1,344,837</u>

HENDRICKS REGIONAL HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following is a summary of the financial position of the Foundation as of and for the years ended December 31, 2011 and 2010:

	2011	2010
Other assets	\$ 527,524	\$ 485,306
Total assets	\$ 527,524	\$ 485,306
Current liabilities	\$ 28,926	\$ 20,140
Net assets	498,598	465,166
Total liabilities and net assets	\$ 527,524	\$ 485,306
Revenue	\$ 341,243	\$ 424,192
Expenses	307,811	212,856
Change in net assets	33,432	211,336
Net assets, beginning of year	465,166	253,830
Net assets, end of year	\$ 498,598	\$ 465,166

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 with no aggregate limit. Substantially all employees are covered for major medical benefits. The total health claims expense was \$13,183,300 and \$11,171,818 for 2011 and 2010, 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:

	2011	2010
Unpaid claims, beginning of year	\$ 2,010,266	\$ 2,055,943
Incurred claims and changes in estimates	13,183,300	11,171,818
Claim payments	(13,920,943)	(11,217,495)
Unpaid claims, end of year	\$ 1,272,623	\$ 2,010,266

SUPPLEMENTARY INFORMATION

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 6,464,706	\$ 502,482	\$ 755,041	\$ -0-	\$ 7,722,229
Investments	6,226,890	-0-	815,898	-0-	7,042,788
Patient accounts receivable, net	22,411,042	21,531	-0-	-0-	22,432,573
Inventories	522,876	-0-	324,661	-0-	847,537
Other current assets	733,407	3,511	417,823	-0-	1,154,741
Current portion of assets whose use is limited	4,145,000	-0-	-0-	-0-	4,145,000
Total current assets	40,503,921	527,524	2,313,423	-0-	43,344,868
Assets whose use is limited					
Board designated funded depreciation investments	89,309,708	-0-	-0-	-0-	89,309,708
Held by trustee for debt service	8,583,943	-0-	-0-	-0-	8,583,943
Other board designated investments	377,129	-0-	-0-	-0-	377,129
Total assets whose use is limited	98,270,780	-0-	-0-	-0-	98,270,780
Less current portion	4,145,000	-0-	-0-	-0-	4,145,000
Noncurrent assets whose use is limited	94,125,780	-0-	-0-	-0-	94,125,780
Capital assets					
Land	16,876,853	-0-	-0-	-0-	16,876,853
Depreciable capital assets	309,097,264	-0-	2,547,006	(1,152,894)	310,491,376
	325,974,117	-0-	2,547,006	(1,152,894)	327,368,229
Less accumulated depreciation	118,287,074	-0-	1,868,687	(1,152,894)	119,002,867
Capital assets, net	207,687,043	-0-	678,319	-0-	208,365,362
Other assets	3,962,418	-0-	-0-	(1,545,934)	2,416,484
Total assets	<u>\$ 346,279,162</u>	<u>\$ 527,524</u>	<u>\$ 2,991,742</u>	<u>\$ (1,545,934)</u>	<u>\$ 348,252,494</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

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

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

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

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 181,876,427	\$ -0-	\$ 3,880,846	\$ (3,880,846)	\$ 181,876,427
Other revenue	4,219,722	-0-	-0-	-0-	4,219,722
Total operating revenue	186,096,149	-0-	3,880,846	(3,880,846)	186,096,149
Operating expenses					
Salaries and wages	75,100,714	-0-	76,768	-0-	75,177,482
Employee benefits	21,931,031	-0-	18,718	-0-	21,949,749
Professional medical fees	1,346,221	-0-	-0-	-0-	1,346,221
Other professional fees	15,265,016	-0-	-0-	(3,880,846)	11,384,170
Medical and surgical supplies	12,482,791	-0-	1,580,686	-0-	14,063,477
Drugs and intravenous solutions	6,554,729	-0-	131,280	-0-	6,686,009
Food	890,507	-0-	-0-	-0-	890,507
Purchased services	10,962,666	-0-	225,751	-0-	11,188,417
Equipment rental	2,922,366	-0-	6,659	-0-	2,929,025
Telephone and utilities	3,583,016	-0-	-0-	-0-	3,583,016
Depreciation and amortization	12,823,174	-0-	419,422	(230,578)	13,012,018
Insurance	1,495,213	-0-	8,430	-0-	1,503,643
Other supplies and expenses	4,409,019	307,811	140,476	-0-	4,857,306
Total operating expenses	169,766,463	307,811	2,608,190	(4,111,424)	168,571,040
Operating income (loss)	16,329,686	(307,811)	1,272,656	230,578	17,525,109
Nonoperating income (expense)					
Investment income (loss) and other	2,225,173	341,243	14,335	(744,275)	1,836,476
Interest expense	(5,946,237)	-0-	(645)	-0-	(5,946,882)
Total non operating income (expense), net	(3,721,064)	341,243	13,690	(744,275)	(4,110,406)
Consolidated change in net assets before special item	12,608,622	33,432	1,286,346	(513,697)	13,414,703
Special item					
Contribution	(1,833,100)	-0-	-0-	-0-	(1,833,100)
Consolidated change in net assets	10,775,522	33,432	1,286,346	(513,697)	11,581,603
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(542,071)	(542,071)
Change in net assets attributable to controlling interests	\$ 10,775,522	\$ 33,432	\$ 1,286,346	\$ (1,055,768)	\$ 11,039,532

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 3,657,120	\$ 444,225	\$ 780,038	\$ -0-	\$ 4,881,383
Investments	7,280,629	-0-	802,492	-0-	8,083,121
Patient accounts receivable, net	22,452,782	41,081	-0-	-0-	22,493,863
Inventories	479,709	-0-	338,074	-0-	817,783
Other current assets	823,697	-0-	393,624	(386,859)	830,462
Current portion of assets whose use is limited	3,995,000	-0-	-0-	-0-	3,995,000
Total current assets	38,688,937	485,306	2,314,228	(386,859)	41,101,612
Assets whose use is limited					
Board designated funded depreciation investments	82,082,003	-0-	-0-	-0-	82,082,003
Held by trustee for debt service	9,088,535	-0-	-0-	-0-	9,088,535
Other board designated investments	332,849	-0-	-0-	-0-	332,849
Total assets whose use is limited	91,503,387	-0-	-0-	-0-	91,503,387
Less current portion	3,995,000	-0-	-0-	-0-	3,995,000
Noncurrent assets whose use is limited	87,508,387	-0-	-0-	-0-	87,508,387
Capital assets					
Land	18,731,398	-0-	-0-	-0-	18,731,398
Depreciable capital assets	305,254,286	-0-	2,427,711	(1,152,894)	306,529,103
	323,985,684	-0-	2,427,711	(1,152,894)	325,260,501
Less accumulated depreciation	115,624,769	-0-	1,605,564	(922,316)	116,308,017
Capital assets, net	208,360,915	-0-	822,147	(230,578)	208,952,484
Other assets	3,543,047	-0-	19,959	(1,563,310)	1,999,696
Total assets	<u>\$ 338,101,286</u>	<u>\$ 485,306</u>	<u>\$ 3,156,334</u>	<u>\$ (2,180,747)</u>	<u>\$ 339,562,179</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Current liabilities					
Current portion of long-term debt	\$ 3,995,000	\$ -0-	\$ -0-	\$ -0-	\$ 3,995,000
Accounts payable	3,663,096	20,140	168,159	(386,859)	3,464,536
Accrued salaries and related liabilities	7,387,901	-0-	587	-0-	7,388,488
Accrued expenses and other current liabilities	1,463,912	-0-	6,189	-0-	1,470,101
Accrued interest	2,105,433	-0-	-0-	-0-	2,105,433
Estimated third-party settlements	682,095	-0-	-0-	-0-	682,095
Total current liabilities	19,297,437	20,140	174,935	(386,859)	19,105,653
Long-term liabilities					
Long-term debt	122,861,525	-0-	-0-	-0-	122,861,525
Total liabilities	142,158,962	20,140	174,935	(386,859)	141,967,178
Net assets					
Invested in capital assets, net of related debt	81,504,390	-0-	822,147	(230,578)	82,095,959
Restricted for debt service	9,088,535	-0-	-0-	-0-	9,088,535
Unrestricted	105,349,399	465,166	2,159,252	(2,981,399)	104,992,418
Net assets - controlling interest	195,942,324	465,166	2,981,399	(3,211,977)	196,176,912
Non-controlling interest	-0-	-0-	-0-	1,418,089	1,418,089
Total net assets	195,942,324	465,166	2,981,399	(1,793,888)	197,595,001
Total liabilities and net assets	<u>\$ 338,101,286</u>	<u>\$ 485,306</u>	<u>\$ 3,156,334</u>	<u>\$ (2,180,747)</u>	<u>\$ 339,562,179</u>

See report of independent auditors on pages 1 and 2.

HENDRICKS REGIONAL HEALTH

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES YEAR ENDED DECEMBER 31, 2010

	Hospital	Foundation	HAMCO	Eliminations	Total
Operating revenue					
Net patient service revenue	\$ 165,983,709	\$ -0-	\$ 3,720,651	\$ (3,720,651)	\$ 165,983,709
Other revenue	4,263,663	-0-	-0-	-0-	4,263,663
Total operating revenue	170,247,372	-0-	3,720,651	(3,720,651)	170,247,372
Operating expenses					
Salaries and wages	73,876,939	-0-	79,242	-0-	73,956,181
Employee benefits	19,816,840	-0-	20,356	-0-	19,837,196
Professional medical fees	1,240,762	-0-	-0-	-0-	1,240,762
Other professional fees	12,898,101	-0-	-0-	(3,720,651)	9,177,450
Medical and surgical supplies	11,681,862	-0-	1,402,680	-0-	13,084,542
Drugs and intravenous solutions	6,552,543	-0-	122,024	-0-	6,674,567
Food	915,603	-0-	-0-	-0-	915,603
Purchased services	11,476,461	-0-	184,127	-0-	11,660,588
Equipment rental	2,703,100	-0-	6,294	-0-	2,709,394
Telephone and utilities	3,533,346	-0-	-0-	-0-	3,533,346
Depreciation and amortization	12,338,020	1,044	444,526	(230,579)	12,553,011
Insurance	1,648,358	-0-	8,430	-0-	1,656,788
Other supplies and expenses	3,929,943	211,812	123,589	-0-	4,265,344
Total operating expenses	162,611,878	212,856	2,391,268	(3,951,230)	161,264,772
Operating income (loss)	7,635,494	(212,856)	1,329,383	230,579	8,982,600
Nonoperating income (expense)					
Investment income (loss) and other	7,208,758	424,192	16,435	(468,015)	7,181,370
Interest expense	(4,294,987)	-0-	(981)	-0-	(4,295,968)
Total nonoperating income (expense), net	2,913,771	424,192	15,454	(468,015)	2,885,402
Consolidated change in net assets before special item	10,549,265	211,336	1,344,837	(237,436)	11,868,002
Special item					
Contribution	(3,124,909)	-0-	-0-	-0-	(3,124,909)
Consolidated change in net assets	7,424,356	211,336	1,344,837	(237,436)	8,743,093
Less amount attributable to non-controlling interest	-0-	-0-	-0-	(876,822)	(876,822)
Change in net assets attributable to controlling interests	<u>\$ 7,424,356</u>	<u>\$ 211,336</u>	<u>\$ 1,344,837</u>	<u>\$ (1,114,258)</u>	<u>\$ 7,866,271</u>

See report of independent auditors on pages 1 and 2.