

May 18, 2011

PUBLIC INPUT SIGN UP SHEET

PUBLIC INPUT SHALL BE LIMITED TO
THREE (3) MINUTES PER PERSON.

EACH PERSON SHOULD:

- (1) STATE YOUR NAME
- (2) IN WHAT AREA OF THE COUNTY YOU LIVE
- (3) SPEAK IN A CLEAR AND COURTEOUS MANNER.

Please Print:

| | <u>NAME</u> | <u>ADDRESS</u> | <u>ISSUE</u> |
|-----|----------------|----------------|--------------|
| 1. | FIELDING Lucas | 50 Squirrel Tr | Pond |
| 2. | | | |
| 3. | | | |
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REQUEST FOR BOARD ACTION

HENDERSON COUNTY

BOARD OF COMMISSIONERS

MEETING DATE: 18 May 2011

SUBJECT: Henderson County Hospital Corporation purchase of realty from HHO Associates, LLC

PRESENTER: Charles Russell Burrell

ATTACHMENT(S): Draft Agreement

SUMMARY OF REQUEST:

Henderson County Hospital Corporation has reached an agreement, as a part of a medical practice purchase agreement, to purchase the real estate owned by HHO Associates, LLC, subject to your approval. This agreement is similar if not identical to several other transactions in the recent past where the hospital corporation has purchased medical practices, together with the real estate upon which they are located.

The purchase price, \$1,265,000.00, was agreed to by the hospital corporation as a part of the transaction, and will be paid wholly from hospital corporation funds. The real estate is located at 1824 Pisgah Drive in Laurel Park, NC.

County staff will be present and prepared if requested to give further information on this matter.

BOARD ACTION REQUESTED:

Approval of the purchase.

If the Board is so inclined, the following motion is suggested:

I move that the Board approve the purchase by the County on behalf of the Henderson County Hospital Corporation of the realty located at 1824 Pisgah Drive, Laurel Park, NC, as shown on the agenda item in this matter.

STATE OF NORTH CAROLINA

AGREEMENT OF PURCHASE AND SALE

COUNTY OF HENDERSON

THIS Agreement, made and entered into this ____ day of _____, 2011 by and between HHO ASSOCIATES, LLC (hereinafter referred to as the "Seller") and HENDERSON COUNTY HOSPITAL CORPORATION d/b/a MARGARET R. PARDEE MEMORIAL HOSPITAL (hereinafter referred to as the "Purchaser");

WITNESSETH:

FOR AND IN CONSIDERATION of the sum of Ten Dollars (\$10.00) in hand paid by the Purchaser to the Seller, and for other good and valuable considerations, the receipt and sufficiency of which are herewith acknowledged, and in consideration of the mutual covenants contained herein, the parties hereto shall and do hereby agree as follows:

1. **Purchase and Sale.** Subject to the terms of this Agreement, the Seller agrees to sell and the Purchaser agrees to purchase all of the real property in Laurel Park, Henderson County, North Carolina and BEING all of that real property described in deed of record in Deed Book 1085, at page 667 in the office of the Register of Deeds for Henderson County, North Carolina, as corrected in that instrument of record at Deed Book 1091, page 416 in the office of the Register of Deeds for Henderson County, North Carolina, together with all buildings, structures, improvements, and fixtures thereunto belonging or in any way appertaining. This real property shall be hereinafter referred to as "the Real Property". The parties also acknowledge that the Purchaser has previously purchased and is the sole owner of all of the personal property located in and upon the Real Property, including but not limited to furniture, furnishings, office equipment, and medical equipment.
2. **Earnest Money.** Contemporaneously with the execution of this Agreement by the parties hereto, the Purchaser will deliver to Seller the amount of \$5,000.00, said sum to be credited by Seller as earnest money (hereinafter referred to as the "Earnest Money") and applied to the purchase price.
3. **Purchase Price.** The total purchase price shall be \$1,265,000.00. (hereinafter referred to as the "Purchase Price"). The balance of the Purchase Price, in the amount of \$1,260,000.00, is payable by the Purchaser at closing in cash.
4. **Seller's Representations, Obligations and Warranties.** The Seller shall and does hereby expressly warrant, represent, and agree as follows:
 - (A) That all information and documentation heretofore furnished and made available to the Purchaser by the Seller or the Seller's agents with reference to the Real Property is true and accurate;
 - (B) That there are no service contracts, management agreements, or other agreements which are in force and will survive the Closing and which relate to the operation, management or maintenance of the Real Property;

(C) That the Seller has no actual knowledge, nor has the Seller received any notice of, any actual or threatened action, litigation or proceeding (including, but not limited to condemnation) by any organization, person, individual, or governmental agency against either the Seller or the Real Property, or with respect thereto, nor does the Seller know of any basis for any such action, nor does the Seller know of any proposals to change the location, width or grade of access roads to the Real Property or adjoining streets;

(D) That there are no assessments which have been made against the Real Property which are unpaid (except ad valorem taxes for the current year), whether or not they have become liens, and if, at the time of Closing, the Real Property or any part thereof shall be or shall have been affected by any assessment or assessments which are or may become payable in installments, of which the first installment is then a charge or lien, or has been paid, then for purposes of this Agreement, all the unpaid installments of any such assessment, including those which are to become due and payable after the delivery of the warranty deed referred to in this Agreement, shall be deemed to be due and payable, to be liens against the Real Property, and shall be paid and discharged by the Seller at Closing;

(E) That the Seller owns unencumbered fee simple and marketable title to the Real Property free and clear of all restrictions, liens, encumbrances, easements, exceptions, chattel mortgages, conditional bills of sale, title retention contracts, Uniform Commercial Code Financing Statements, security interests of every kind and character, leases and tenant contracts;

(F) That the Seller knows of no title defect which would materially adversely affect the Real Property;

(G) That, until and through the Closing, the Seller shall, at its sole cost, maintain the Real Property in its present condition, subject to reasonable wear and tear, and destruction by casualty or other event beyond the control of the Seller, and shall continue to operate the Real Property as it is now being operated, except as herein specifically provided;

(H) That water and sewer service is available to immediately serve the Real Property;

(I) That there are no violations of law, municipal or county ordinances, or other legal requirements with respect to the Real Property, and all improvements comply with all applicable legal requirements with respect to the use, occupancy, and construction thereof; that the Seller (including the Seller's agents) has received no notice of violations, or alleged violations, of such legal requirements;

(J) That the lines and corners of the Real Property are clearly identifiable, and there are no disputes concerning the location of such lines and corners; and that all improvements are located within

the boundary lines of the Real Property. Nothing herein shall be construed to require the Seller to obtain a survey of the Real Property;

(K) That all access to the Real Property is by public streets and roads and that all curb cuts and street opening permits or licenses required for vehicular access to and from the Real Property are now, and shall be in full force and effect at Closing;

(L) That there are no special agreements with any utility company which supplies any utility for equipment or facilities furnished by it, except normal charges for consumption of its product;

(M) That the Real Property is not subject to flooding, is not located in a flood zone as such is identified by Federal, State or local government agencies, and is not located where, by law, the Real Property is required to be insured by flood insurance;

(N) That the Real Property has sustained no damage due to flooding or inadequate drainage, through the date hereof and drainage on the Real Property is sufficient to allow its use without any material interference caused by standing or draining water;

(O) The Real Property is free of all chemical substances, asbestos, oil, ureaformaldehyde, PCBs and all other toxic, radioactive or hazardous wastes, materials, substances or contaminants (collectively referred to hereinafter as "Hazardous materials"); no Hazardous Materials have ever been stored, disposed of located upon the Real Property, and the Seller hereby agrees to indemnify and hold harmless the Purchaser from and against all liabilities, expenses, demands, damages, costs, losses, causes of action, claims for relief, penalties and charges incurred or assessed before or after Closing in connection with the presence, removal or cleanup of any Hazardous Materials upon, under, associated with or flowing or originating from the Real Property. If requested by the Purchaser, the Seller shall provide the Purchaser with all necessary and reasonable assistance for purposes of determining the existence of Hazardous Materials on the Real Property, including allowing the Purchaser access to the Real Property, and both prior to and following Closing, access to the Seller's employees and agents, having knowledge of, and to files and records within the Seller's control relating to, the existence, storage or discharge of hazardous Materials on the Real Property;

(P) That the Real Property is not now, and never has been, in violation of any federal, state or local environmental protection laws or regulations; and

(Q) That the Seller has full and unconditional authority to enter into this Agreement and to sell the Real Property as provided herein and that the person(s) executing this Agreement on behalf of Seller has authority to bind Seller.

The foregoing representations, warranties, indemnities and agreements are true as of the date hereof (unless otherwise provided herein above), and shall be true as of the date and time of Closing. These provisions shall survive the Closing of this transaction.

5. **Conditions Precedent.** The obligation of the Purchaser to purchase the Real Property from the Seller is subject to satisfaction on or before the Closing of the following conditions (any of which may be waived in whole or in part by the Purchaser, but only in writing at or prior to Closing), but a failure to discover, or a waiver of, any circumstances made a condition of this Paragraph 5 shall not constitute a waiver of any warranties and representations provided for elsewhere in this Agreement unless any such waiver specifically so states.

(A) The Purchaser shall not have discovered any error, misstatement or omission in the representations or warranties made by the Seller in this Agreement. The Seller shall afford the Purchaser access to the Real Property and to all of the Seller's books and records relating thereto to permit the Purchaser to verify the representations of the Seller made herein and any other conditions contained in this Agreement;

(B) The Purchaser shall obtain at Closing a Commitment for an Owner's Policy of Title Insurance (ALTA Owner's Policy, Extended Coverage or equivalent) covering the fee title to all of the Real Property in an amount at least equal to the Purchase Price for the Real Property and issued by such title company as the Purchaser shall approve in writing, with all Standard and General Exceptions deleted so as to afford full "extended form coverage". As a condition precedent to the Closing, the Commitment shall be later-dated to the Closing Date and the recording of the Warranty Deed, and the title company shall deliver the Title Policy (or an endorsed "marked up" binder) to the Purchaser concurrently with the Closing. The Purchaser shall pay for all title insurance charges and premiums.

(C) The Real Property shall be delivered to the Purchaser vacant and free of tenancies on the date of closing, excepting only that Lease Agreement entered into by and between the parties hereto and dated November 1, 2010;

(D) All warranties and representations made by the Seller herein shall be materially true and correct as of Closing;

(E) This Agreement is subject to the approval by the Board of Directors of Henderson County Hospital Corporation on or before March 31, 2011, and the Henderson County Board of Commissioners on or before April 15, 2011, and if either Board approval is not obtained by said date, this contract shall then be null and void and any and all obligations upon either of the parties shall immediately terminate with the earnest money to be immediately returned to the Purchaser;

(F) All covenants and agreements made by the Seller herein which are to be completed on or before the Closing shall have been performed;

(G) Receipt and approval by the Purchaser of all of the Seller's "Closing Documents" as defined and described in Subparagraph 6.(D) below; and

(H) The Purchaser's obligation to purchase any portion the Real Property is subject to the Purchaser's ability to obtain marketable fee simple title to all of the Real Property. If for any reason the Purchaser is unable to obtain unencumbered fee simple title to all of the Real Property at closing, the Purchaser may, in its sole discretion, terminate this agreement and all of the obligations created herein and obtain refund of 100% of the earnest money; delay closing of this transaction for a period of up to ninety (90) days to enable the Purchaser to acquire unencumbered fee simple title to all of the Real Property to waive this condition and purchase that portion of the Real Property to which the Purchaser can obtain marketable fee simple title without regard to the status of the balance of the Real Property.

6. **Closing.**

(A) Unless extended as otherwise provided in this Agreement, the Purchaser and the Seller shall consummate and close the sale contemplated by this Agreement on or before April 30, 2011, at the offices of Prince, Youngblood & Massagee, PLLC at 240 Third Avenue West, Hendersonville, North Carolina, at a time and on a date designated by the Purchaser, with not less than three (3) days prior notice to the Seller.

(B) At Closing, the Seller shall pay the North Carolina (1) transfer tax incident to the sale and conveyance of title to the Real Property; (2) the Seller's attorney fees; and (3) all other costs and expenses incurred by Seller in closing and consummating the purchase and sale of the Real Property pursuant hereto.

(C) At Closing, the Purchaser shall pay (1) the cost of recording the Warranty Deed; (2) the Purchaser's attorney fees; and (3) all other costs and expenses incurred directly by the Purchaser in closing and consummating the purchase and sale of the Real Property pursuant hereto.

(D) At Closing, the Seller will deliver to the Purchaser the following documents ("the Seller's Closing Documents"), all of which shall be duly executed and acknowledged where required:

(1) General Warranty Deed from the Seller conveying to the Purchaser good and marketable fee simple title to the Real Property;

(2) An Owner's Affidavit executed by the Seller and containing such representations as the title insurer shall reasonably require;

(3) Such other documents as shall be required by the title insurance company as a condition to insuring the Purchaser's title to the Real Property free of exceptions;

(4) Reaffirmation of the truth and accuracy of the Seller's representations and warranties set forth in this Agreement, and a representation that all of the Seller's agreements contained in this Agreement are completely satisfied and discharged. Such Reaffirmation shall contain provisions confirming that each of such representations, warranties or agreements shall survive closing.

(5) Such other documents as may be reasonable and necessary in the opinion of the Purchaser's counsel for the Seller and the Purchaser to consummate and close the purchase and sale contemplated herein pursuant to the terms and provisions hereof.

(6) Such documents as are necessary to insure that the Seller's right to possession and the terms and conditions of such possession survive the closing.

(7) A bill of sale, conveying unencumbered title to all of the Personal Property.

(E) The following items (hereinafter referred to as the "Apportioned Items") shall be adjusted and prorated between the Seller and the Purchaser as of midnight the date of Closing:

Laurel Park and Henderson County ad valorem taxes for the calendar year of closing.

All of the Apportioned Items, together with any and all credits which the Purchaser may receive pursuant to this Agreement, shall adjust the cash sum otherwise payable by the Purchaser to the Seller pursuant to Paragraph 3 hereof.

(F) At Closing, the Purchaser will deliver to the Seller all sums payable pursuant to the provisions of Paragraph 3, as adjusted pursuant to this Paragraph.

7. **Default.** If, by the date and time of Closing or such earlier date as provided herein, any of the requirements, conditions, covenants or agreements of the Seller as provided in Paragraphs 4 and 5, or otherwise in this Agreement, are not fully performed or satisfied, or in the event any material warranties and representations of the Seller are inaccurate or untrue, then

Seller shall have the option of (a) resolving, satisfying and/or correcting the defect, covenant, or representation or (b) refusing to resolve, satisfy or correct the defect, covenant or representation. If the Seller elects to resolve, satisfy and/or correct the defect it must do so within thirty (30) days from the date it is served with written notice of the defect. If Seller elects not to resolve, satisfy or correct the defect, then Purchaser shall have the option of (a) accepting the Real Property in its present condition or (b) terminating this Agreement and receiving 100% of the earnest monies paid.

8. **Assignment.** The Purchaser shall have the right to assign this Agreement, and its rights hereunder, in whole or in part, at any time and from time to time, to Henderson County and such nominee or assignee shall assume all obligations of the Purchaser hereunder, and shall agree to execute all necessary documents which the Purchaser is obligated to execute pursuant to the terms and provisions of this Agreement. Upon such assignment as herein authorized and permitted, the Purchaser shall thereby be fully and completely discharged of all the Purchaser's duties, obligations, and liabilities hereunder to the extend of such assignment.

9. **Possession.** The Seller shall deliver exclusive possession of the Real Property to the Purchaser on the date of closing.

10. **Brokerage.** The Seller warrants to the Purchaser that no person, firm or individual is entitled to or has a claim for a commission or fee arising out of the purchase and sale of the Real Property and that the Seller is solely responsible for payment of any and all commission or fee arising out of such purchase and sale. Accordingly, the Seller shall and does hereby indemnify and hold harmless the Purchaser from and against any claim for any consulting fee, finder's fee, commission, or like compensation, including reasonable attorney's fees in defense thereof, payable in connection with any transaction contemplated hereby and asserted by any party arising out of any act or agreement by the Seller, excluding any such claim for any consulting fee, finder's fee, commission, or like compensation including reasonable attorney's fees in defense thereof, payable in connection with any transaction contemplated hereby and asserted by any party arising out of any act or agreement by the Purchaser.

11. **Condemnation.** If, prior to Closing, all or a part of the Real Property is subjected to a bona fide threat of condemnation by a body having the power of eminent domain, or is taken by eminent domain or condemnation (or sale in lieu thereof), the Purchaser may by notice to the Seller, given within thirty (30) days of the Purchaser's receiving actual notice of such condemnation, damage, or destruction, elect to terminate this Agreement, and, upon such termination, the Earnest Money shall be returned to the Purchaser, whereupon neither of the parties shall thereafter have any rights, duties, obligations, or liabilities hereunder whatsoever (the date of Closing shall be extended, if necessary, to grant the Purchaser the aforesaid thirty (30) day period). If the Purchaser does not so elect to terminate this Agreement, this Agreement shall remain in full force and effect, and the purchase and sale contemplated herein, less any interest taken by eminent domain or condemnation, shall be effected with no further adjustments and, at Closing, the Seller shall assign, transfer, and set over to the Purchaser all of the Seller's right, title and interest in and to

any awards that may have been or that may thereafter be made for such taking. At such time as all or a part of the Real Property is subjected to a bona fide threat of condemnation as herein above provided, or if all or a portion of the Real Property is damaged or destroyed as herein above provided, as long as this Agreement is in full force and effect, the Purchaser shall be permitted to participate in the proceedings as if the Purchaser were a party to the action and negotiations.

12. **Option to Re-purchase.** Seller shall have the option to purchase the Real Property from the Purchaser pursuant to the terms and conditions contained in this paragraph which shall be referred to as "the Option". The Seller shall own the Option for as long as William D. Medina, M.D., James E. Radford, M.D. and John K. Hill, M.D. continue to practice medicine on a full time basis in the facilities located on the Real Property and may exercise the Option, as further provided herein, only if all three (3) of said physicians agree that Seller should exercise the Option. The Option will automatically terminate at any time when one of the aforesaid physicians ceases a full time practice at the facilities located on the Real Property and another or others of said physicians continue to practice there.

The Seller may exercise the Option by delivering to the Purchaser written notice of such exercise within thirty (30) days from the termination of employment of William D. Medina, M.D., James E. Radford, M.D. and John K. Hill, M.D. with Purchaser pursuant to those Employment Agreements dated November ____, 2010, if and only if all of them terminate employment at the same time. Said notice of exercise of the Option shall be effective if delivered by hand, Federal Express or certified mail, return receipt requested, to the attention of CEO, Henderson County Hospital Corporation, at 800 North Justice Street; Hendersonville, North Carolina 28791. Upon exercise by the Seller of the Option, the Option shall become a contract for the Seller's purchase of the Real Property.

In the event the Seller exercises the Option, the total purchase price (herein referred to as "the Option Purchase Price") for the Real Property shall be One million two hundred sixty thousand and 00/100's Dollars (\$1,260,000.00), payable in cash at the time of closing on the Seller's purchase. Closing on the Sellers' purchase shall take place no later than sixty (60) days following the date of Seller's exercise of the Option at such place as the parties agree. At closing on the Seller's purchase, Seller shall tender to the Purchaser the Option Purchase Price, and the Purchaser shall deliver to the Purchaser a Special Warranty Deed, prepared at the Seller's expense, with warranties conveying to the Seller an indefeasible fee simple title, free and clear of all liens and encumbrances, claims, easements, leases or restriction created by the Purchaser.

If Seller exercises the Option and closes on the Seller's purchase of the Real Property, Buyer shall deliver the Real Property to Seller in a condition that is at least as good as it exists on the date when Purchaser takes title, normal wear and tear excepted. If the Real Property has sustained damage or has been destroyed as a result of a catastrophic event beyond the control of the Purchaser, the Purchaser shall not be required to deliver the Real Property in any particular condition, and the Option Purchase Price shall be reduced by

the amount paid to the Purchaser by any insurance carrier insuring the risk for such damage or destruction.

Time shall be of the essence in regard to all events related to the Option.

13. Miscellaneous.

(A) This Agreement shall be construed and interpreted under the laws of the State of North Carolina.

(B) Except as otherwise provided herein, all rights, powers and privileges conferred hereunder upon the parties shall be cumulative but not restricted to those given by law.

(C) The failure of either party to execute any power given either party hereunder or to insist upon strict compliance by either party of its obligations hereunder, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of either party's right to demand exact compliance with terms hereof.

(D) The proration date shall be the date of closing.

(E) This Agreement contains the entire agreement of the parties related to the Real Property, and no representation, inducements, negotiations, promises or agreements, oral or otherwise, between the parties not expressly embodied herein shall be of any force or effect. This Agreement cannot be amended modified or waived except by written instrument executed by all of the parties to this Agreement.

(F) This Agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs devisees, executors, administrators, personal representatives, successors and assigns.

(G) Time is of the essence in this Agreement.

(I) This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all such counterparts together shall constitute one and the same instrument.

(J) All representations, warranties and agreements which are contained in this Agreement shall survive the Closing.

(K) The captions and headings throughout this Agreement are for convenience and reference only, and they shall not define, limit, modify or add to the interpretation or meaning or any provisions of this Agreement or in any way affect the scope, intent or effect of this Agreement.

(L) The parties hereto shall execute and deliver any and all such additional documents, certifications or other instruments, and

perform any and all additional actions as may be necessary to give full effect and complete the purchase and intent of this Agreement.

(M) The County of Henderson executes this Agreement for the sole purpose of binding itself to the Option as set out herein above in paragraph 12.

WITNESS our hands and seals this the day and year first above written.

HHO ASSOCIATES, LLC

BY: _____ (SEAL)
WILLIAM D. MEDINA, Member/Manager

BY: _____ (SEAL)
JAMES E. RADFORD, Member/Manager

BY: _____ (SEAL)
JOHN K. HILL, Member/Manager

HENDERSON COUNTY HOSPITAL CORPORATION

BY: _____ (SEAL)

Approved by the Board of Directors of Henderson County Hospital Corporation.

This the _____ day of _____, 2011.

President

Approved by the Henderson County Board of Commissioners.

This the ___ day of _____, 2011.

COUNTY OF HENDERSON

BY: _____ (SEAL)

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Annual Report to the
Henderson County Commissioners
May 2011

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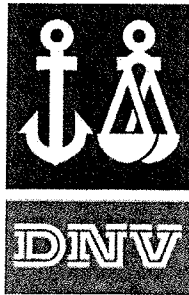
Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Accreditation

In order to bill the Centers for Medicare and Medicaid Services (CMS), a facility must be surveyed by an approved accrediting agency. Pardee Memorial Hospital has historically been accredited by The Joint Commission (TJC). In 2009, Pardee changed accrediting agencies and was the first facility in North Carolina to achieve accreditation with Det Norske Veritas (DNV).

DNV is the first accrediting agency to combine CMS Conditions of Participation for Hospitals (CoPs) with International Organization of Standardization (ISO) guidelines. The CoPs are clinical standards that must be implemented in facilities providing care to Medicare and Medicaid beneficiaries. ISO guidelines are recognized as the "gold standard" of quality management and are used by industries worldwide. DNV is the first accrediting agency with the expertise to combine clinical standards with ISO standards. This unique combination allows Pardee associates and medical staff to focus on processes that are specific to Pardee patients.

Accreditation with DNV offers many advantages not currently available with The Joint Commission. For example, surveys are annual, the same survey team conducts surveys for three (3) years, and all departments of the organization participate in the surveys. DNV also trains an associate from the organization as a surveyor thus eliminating the expense and dependence on consultants.

Pardee has successfully completed two accreditation surveys with DNV. Our managers have implemented ISO standards and underwent an ISO certification survey in April 2011. We are currently awaiting the results of that survey, and look forward to the day when we can announce that Pardee is the first ISO certified facility in North Carolina.



DNV HEALTHCARE INC.

CERTIFICATE OF ACCREDITATION

Certificate No. 53985-2009-AHC-USA-NIAHO

This is to certify that

Margaret R. Pardee Memorial Hospital

800 North Justice Street, Hendersonville, NC 28791

Complies with the requirements of the:

NIAHOSM Hospital Accreditation Program

Pursuant to the authority granted to Det Norske Veritas Healthcare, Inc. by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, this organization is deemed in compliance with the Medicare Conditions of Participation for Hospitals (42 C.F.R. §482). This certificate is valid for a period of three (3) years from the Effective Date of Accreditation.

Effective Date of Accreditation:

April 23, 2009

for the Accreditation Body:

DET NORSKE VERITAS
HEALTHCARE, INC.
HOUSTON, TEXAS

Patrick Horine
Executive Vice President, Accreditation



Yehuda Dror
President

Lack of continual fulfillment of the conditions set out in the Certification/Accreditation Agreement may render this Certificate invalid.



THE COMMISSION ON CANCER AWARDS THIS
Certificate of Accreditation

WITH COMMENDATION

*to the Community Hospital Comprehensive Cancer Program of
Margaret R. Pardee Memorial Hospital
Hendersonville, NC
Program approved through 2012*

STEPHEN B. EDGE, MD, FACS
CHAIR, COMMISSION ON CANCER
AMERICAN COLLEGE OF SURGEONS

DIANA DICKSON-WITMER, MD, FACS
CHAIR, ACCREDITATION COMMITTEE
AMERICAN COLLEGE OF SURGEONS



Stephen B. Edge, MD, FACS
Chair

David P. Winchester, MD, FACS
Medical Director

*A multidisciplinary program of the
American College of Surgeons*

March 30, 2010

N. Kristopher Hoce FACHE
Administrator/Chief Executive Officer
Margaret R. Pardee Memorial Hospital
800 North Justice Street
Hendersonville NC 28791-3410

Dear Mr. Hoce,

Through your outstanding efforts, and as a result of your 2009 cancer program survey, your institution has been named a recipient of the 2009 Commission on Cancer (CoC) Outstanding Achievement Award.

As Chair of the Commission on Cancer, it is my great pleasure to congratulate you and your institution on reaching this significant milestone.

The CoC Outstanding Achievement Award recognizes the significant commitment by the administration and personnel at your institution to providing high quality cancer care to your patients, and in meeting and exceeding the standards set by our CoC Accreditation Program. Not only have you met the basic standards of our Accreditation Program, but you have also excelled in six areas where Commendation (1+) has been awarded.

Your program is one of 82 programs nation-wide to achieve an Outstanding Achievement Award. We at the Commission are certainly proud of your achievements and applaud you for your outstanding efforts. I would hope that you would make all of your colleagues and patients aware of this achievement and indicate to them the level of care represented by reaching this milestone.

On behalf of the Commission on Cancer of the American College of Surgeons I salute you and your institution. We look forward to your continued excellence as we all strive to maintain the best possible care for our cancer patients.

Sincerely,

A handwritten signature in dark ink, appearing to read 'S. Edge', written over a light-colored background.

Stephen B. Edge, MD, FACS
Chair, Commission on Cancer

SBE:caw

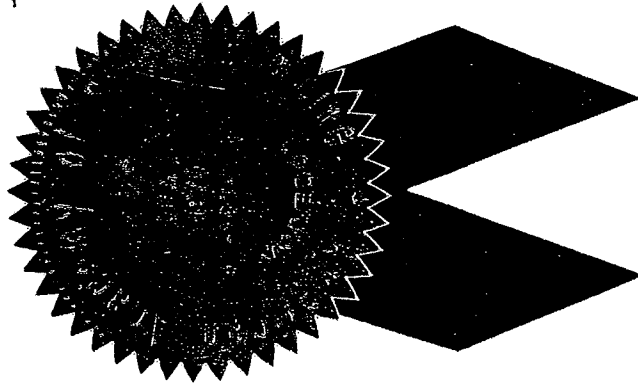
CERTIFICATE OF ACCREDITATION

The American Academy of Sleep Medicine

certifies that

Sleep Center of Pardee

*has been granted center reaccreditation status
for five years effective October 29, 2008*



attested by:

Mary Susan Esther MD

Mary Susan Esther, MD
*President,
American Academy of Sleep Medicine*

Belen Esparis, MD
*Chair,
Accreditation Committee*

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital

| Quality Indicator | Pardee Results 10/2009 - 9/2010 | NC avg | National |
|--|--|--------|----------|
| Heart Attack | | | |
| % Pts given aspirin at arrival | 100 | 99 | 99 |
| % Pts given aspirin at discharge | 97 | 99 | 99 |
| % Pts give ACE Inhibitor or ARB for LVSD | 100 | 97 | 96 |
| % Pts given smoking cessation | 100 | 100 | 100 |
| % Pts given beta blocker at discharge | 97 | 99 | 98 |
| Readmission Rate | 17.8% | | 19.8% |
| Inpatient Mortality Rate | 14.9% | | 15.9% |
| Heart Failure | | | |
| % Pts given discharge instructions (6 elements) | 79 | 90 | 89 |
| % Pts given evaluation left ventricular systolic function | 98 | 99 | 98 |
| % Pts given ACE inhibitor or ARB for LVSD | 97 | 95 | 95 |
| % Pts given adult smoking cessation advice | 100 | 99 | 99 |
| Inpatient Mortality Rate | 11.6% | | 11.3% |
| 30 day Readmission Rate | 24.3% | | 24.8% |
| Pneumonia | | | |
| % Pts assessed and given pneumococcal vaccine | 92 | 95 | 93 |
| % Pts blood culture in ED prior to first abx | 96 | 96 | 96 |
| % Pts given smoking cessation advice | 98 | 99 | 97 |
| % Pts given antibiotics within 6 hrs | 88 | 95 | 95 |
| % Pts given most appropriate abx | 95 | 93 | 92 |
| % Pts receiving influenza vaccine | 87 | 93 | 91 |
| Inpatient Mortality Rate | 10.8% | | 11.9% |
| 30 day Readmission Rate | 16.7% | | 18.4% |
| Surgical Care Improvement Project | | | |
| % who received abx within 1 hr before incision | 97 | 98 | 97 |
| % who received the correct abx for their surgery | 97 | 98 | 97 |
| % Pts who had abx discontinued within 24 hr after surgery | 98 | 96 | 95 |
| % pts who had correct hair removal | 100 | 100 | 100 |
| % pts on BB therapy at home who rec'd perioperatively | 97 | 95 | 93 |
| % pts urinary catheter removed day 1 or day 2 after surgery | 93 | 92 | 91 |
| % Pts MD ordered Prophylaxis for blood clots | 95 | 95 | 94 |
| % Pts who received treatment within 24 hr prevent bl clots | 90 | 93 | 93 |
| Outpatient Surgery | | | |
| % pts receiving antibiotic within 1 hour prior to surgery | 94 | 94 | 92 |
| % pts who received the correct abx for their surgery | 95 | 95 | 94 |
| Outpatient Heart Attack or Chest Pain | | | |
| average # of minutes before patients with chest pain or possible heart attack who needed specialized care were transferred to another hospital | 55 | 48 | 61 |
| average # of minutes before patients with chest pain or possible heart attack got an ECG | 8 | 8 | 8 |
| % pts with chest pain or possible heart attack who received aspirin within 24 hours of arrival | 99 | 95 | 95 |

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Annual Review of the Environment of Care

Environment of Care Program: Emergency Management

Annual Review for Year: 2010

Prepared by: Marilyn Horne, Director of Environmental Services & Safety

Review of Program Scope

The Emergency Management Program is designed to assure appropriate, effective response to a variety of emergency situations that could affect the safety of patients, associates, and visitors, or the environment of Pardee, or adversely impact upon the hospital's ability to provide healthcare services to the community. The program is also designed to assure compliance with applicable codes and regulations. The Emergency Management Plan is developed to assure availability of resources for the continuation of patient care during an emergency. The program is applied to Pardee.

Evaluation:

No changes to the facilities served or the programs provided were made during the past year. The scope still accurately reflects the intent of the program.

Review of Program Objectives

Each management objective is listed in the following table. Each objective is marked as met or not met. If an objective is not met, the appropriate EC program manager(s) review the objective to determine what needs to be done to meet it during the next year. Objectives can be added, deleted, or modified. The action required to address each change is indicated in the last column of the table.

Review of Program Goals and Objectives for 2010:

| Objectives | Met | Not Met | Adjusted Objective/Action Plan |
|--|------------|----------------|--|
| Document National Incident Management System compliance training for all designated Incident Commanders. | X | | All designated Incident Commanders have met the NIMS training requirements. |
| Review and revise the Emergency Operations Plan. | X | | The EOP was reviewed and revised throughout the year to make changes identified through our Drills and actual disaster events. |
| Meet all requirements for drills and training exercises. | X | | All required drills were implemented, documented and after action plans developed. |
| Develop a Power Point for Code Zero (Active Shooter) Training for all | X | | The Emergency Management Committee developed an |

| | | | |
|-------------|--|--|---|
| associates. | | | <p>informational Power Point identifying how to respond to an active shooter. A new tone was implemented for immediate identification for Code 0 during the overhead announcement. All associates including the auxiliary were educated.</p> <p>Security helped departments locate safe places to seek shelter during a Code 0.</p> <p>Three drills are planned for hospital associates on an active shooter in January 2011.</p> |
|-------------|--|--|---|

Accomplishments in 2010:

- The Emergency Operation Plan was continually revised this year. The effectiveness of the plan was tested during actual emergencies and through emergency preparedness drills. Testing of the Emergency Operation Plan occurred at least semi-annually.
- The Hazard Vulnerability Assessment (HVA) for 2010 was completed and drills were chosen according to the identified Hazards for Pardee. The HVAs enable us to identify the most likely disasters for the organization, and we develop plans to mitigate these disasters and conduct drills to test our readiness. The HVA is reviewed annually.
- The 2011 Hospital Hazard Vulnerability Analysis (HVA) was submitted to the Emergency Operations Committee and was reviewed, revised and approved at the February, 2011 meeting.

Dates of 2010 Drill and Actual Disaster Events Implementation were:

| Drill | Participants | Date |
|---|---------------------|---------------------------|
| Radioactive Spill – Actual Event | Pardee Hospital | 01-12-10 |
| Severe Weather – Ice /Snow- Actual Event | Pardee Hospital | 01-2010, 02-2010, 03-2010 |
| Rapid Reach Emergency Notification Drill | Pardee Hospital | 04-01-2010 |
| State/ Regional Drill | Pardee Hospital | 05-07-2010 |
| Code Black – Power Failure- Actual Event | Pardee Hospital | 05-15-2010 |
| NDMS Tabletop - Drill | Pardee Hospital | 04-07-2010 |
| Code Black – Power Failure -Actual Event | Pardee Hospital | 07-16-2010 |
| Code Orange – Decon - Drill | Pardee Hospital | 09-21-2010 |
| Code Black – Power Failure – Actual Event | Pardee Hospital | 11-15-2010 |

- Staff responded well to the above drills and actual events. Critiques were completed, after action reports were developed, corrective action taken and training documented for the drills. The Specific Disaster Policy and Procedure and the Emergency Response/Basic Associate Disaster Response Guide was reviewed with all staff prior to drills.

- Pardee's Environment of Care Committee updated and revised policies and procedures to stay compliant with our disaster preparedness. We incorporate the Hospital Incident Command system into our disaster plan.
- The annual review of the Hospital Emergency Operations Plan and the Environment of Care Management Plans for Safety, Security, Hazardous Materials, Medical Equipment, Fire Safety, Utility Safety, and Emergency Management was conducted and the updated version was placed on the hospital intranet under the Environment of Care Manual.
- The Hospital was National Incident Management System (NIMS) compliant in 2010 as outlined in the "NIMS Implementation Activities for Hospitals and Healthcare Systems. The Emergency Management Committee members who are identified as Incident Commanders have completed the required National Incident Management Systems (NIMS) online training courses IS.100.HC, IS.200.HC, IS.00700, and IS.00800. This compliance is required for funding from the MATRAC ASPR grant.
- The Emergency Management Committee met monthly during 2010. The Emergency Management Committee's objective is to prepare and educate selected associates to function as Incident Commander during a disaster situation and is responsible for the Emergency Management Plan and organizational responses to disaster situations. We have a permanent Incident Command Room located beside the Emergency Department on first floor. This room has dedicated phone lines, radios, and other supplies needed for an Incident Command post. We use this area for training and monthly meetings. Our goal is to continue to recruit new members and expand this program as new members are trained.
- Members of the Emergency Management Committee:
 - Marilyn Horne, MESH, CEH, ES/Safety *
 - Michelle Reynolds, CEH, Environmental Services *
 - Tim Auwarter, Rehab Services *
 - Barbara Platz, Administration *
 - Bonnie Hartel, Nursing *
 - John Dunn, Security *
 - Tony Galloway, RN Emergency Department *
 - Gayle Sams, RN, BSN, CCRN, CEN, Emergency Department *
 - Connie Webb, RN ICU *
 - Melissa Shipman, Patient Financial Services
 - Matt Yates, Bio-Med
 - Dr. Henrichs, MD
 - Richard Prudhomme, Community Relations
 - Tim Smith, Engineering
 - Bridget, Barron, RN PATHS

*Individuals who have completed required education to function as Incident Commanders. The hospital CEO gives written approval for these associates to function as an Incident commander during a disaster situation.

- New Member 8 hour Decon training was held in July 2010. The Decon team continued to train and upgrade their equipment and response in 2010. The Decon Team prepares for accidents involving nuclear, biological, bombings, and chemical contamination. The Decon team conducted a Hazardous Materials Drill in September 2010.
- The Hospital operates as a team with other Henderson County Emergency response agencies. Three members of the EOC committee are members of the Local Emergency Planning Committee and attended quarterly meetings during 2010.
- The Mutual Aid agreement for North Carolina Hospitals and Healthcare Facilities in Disaster Preparedness and Response was signed in January, 2008 and is effective for five years. This agreement provides a framework for the effective utilization of available hospital resources throughout the state in the event of a disaster and provides timely and effective patient care.
- The Viper Radio, provided through the Mountain Area Trauma Regional Advisory Committee/ ASPR Grant is in place and education was provided to associates who will be using the radio during disaster situations. The viper radio allows Pardee to communicate with other emergency response agencies throughout the State of N.C. during disaster situations. A regional drill was implemented in April 2010 which allowed us to test this equipment.
- Memorandum of Agreement (MOA) between the National Disaster Medical System and Pardee was updated. The MOA lists the minimum and maximum number of beds that the hospital will make available to NDMS in the event NDMS is activated. Pardee participated in a table top drill with NDMS in April 2010.
- The hospital has an agreement with Rapid Reach, an emergency notification company for use in contacting staff during emergencies. Rapid Reach provides efficient, high speed, secure communication, in critical situations. A drill activating this system was completed in April 2010.

Trends/Patterns

No trends or patterns were noted.

Program Summary

All needed changes were made and performance was improved. To measure the effectiveness of the Emergency Management Plan, monitors were established and drills were conducted. Each of the monitors was evaluated. The 2010 Emergency Management program was evaluated and was found effective based on the objectives.

Planning Objectives for 2011

- Recruit and train additional Incident Commanders
- Participate in the County Table Top Drill.
- Conduct Code 0 (Active Shooter Drills).
- Develop an assessment form to identify potentially violent patients and visitors. We will use this information to intervene before violent situations develop.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Health Insurance Portability and Accountability Act (HIPAA) Compliance

Providers at Pardee are using clinical applications that contain functionality such as computerized physician order entry (CPOE), electronic health records, radiology reports, pharmacy orders, and laboratory results. The major clinical applications are Meditech (hospital), GE Centricity (physician practices), Phillips OBTraceView (Women and Children's Center), Olympus Endoworks (Endoscopy), FujiFilm Synapse PACS (Radiology), Siemens Lantis (Radiation Therapy), Meditech PCTC (Home Health). Health plans are allowing access to claims and care management as well as member self service applications. While advancement affords improved mobility and efficiency (i.e., physicians can check patient records and test results from any location), the adoption of these technologies increase potential security risks.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires healthcare providers to comply with legislation regulating the privacy, security, and electronic transmission of health information. To assist organizations with compliance, the Department of Health and Human Services (HHS) published the Standards for Privacy of Individually Identifiable Health Information (the Privacy Rule) and the Security Standards for the Protection of Electronic Health Information (the Security Rule). The Privacy Rule establishes national standards for the protection of certain information that is held or transmitted in electronic form. The Security Rule addresses the technical and non-technical safeguards that organizations must put in place to secure electronic health information (EHI). Within HHS, the Office of Civil Rights has responsibility for enforcing the Privacy and Security rules with voluntary compliance activities and civil money penalties.

To comply with the Privacy and Security rules, Pardee has policies and procedures to:

- Ensure the confidentiality, integrity, and availability of protected health information (PHI) created, received, maintained, or transmitted
- Identify and protect against reasonably anticipated threats to the security or integrity of PHI
- Protect against reasonably anticipated, impermissible uses or disclosures; and
- Ensure compliance by all users.

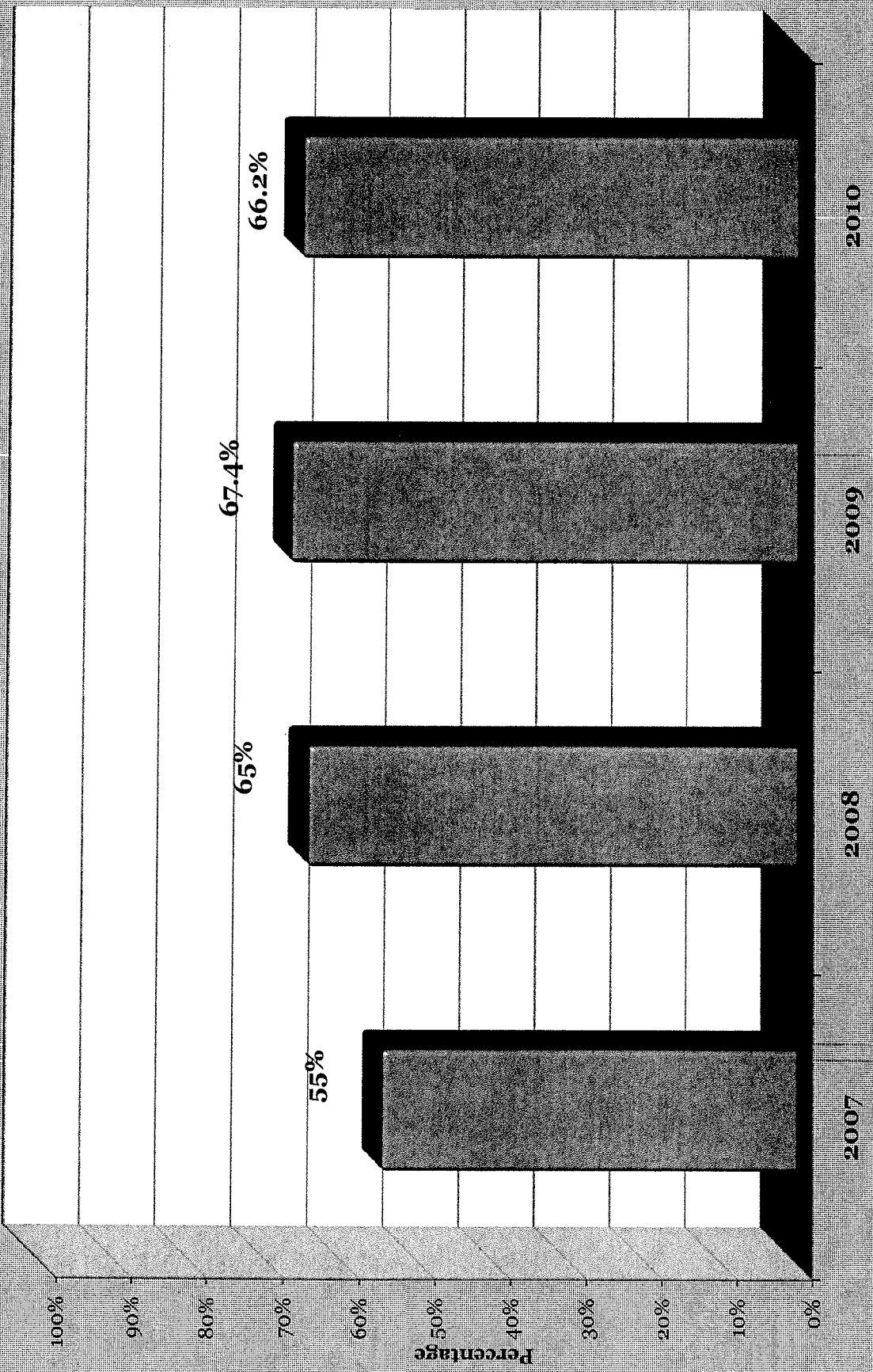
Policies and procedures are available to associates and medical staff via the hospital intranet. An external HIPAA security assessment is scheduled in 2011 to evaluate compliance with security and privacy requirements as well as identify opportunities for improvement. The target date for completion of this external survey is May.

To prevent the disclosure of PHI via email, a procedure was developed by IT to encrypt emails. The new technology allows emails to be encrypted by users by typing the word "encrypt" on the subject line. The implementation of this process has significantly reduced the incidences of sending PHI via email without the proper security protection.

Although all aspects of the Health Information Technology for Economic and Clinical Health (HITECH) Act have not been published, interim final rules for breach notification and enforcement are currently in effect. Pardee developed a breach notification program and trained associates and medical staff to identify and report HIPAA breaches. A log of HIPAA breaches is maintained and was submitted to HHS in 2011 as required.

Funding is included the current year's budget to improve the reliability and capacity of the hospital's data network. The IT Strategic Plan includes strategies to improve the reliability and availability of the organization's servers, data storage, and network systems. The IT Strategic Plan represents an increased IT capital budget and establishes future year costs to maintain redundancy and failure tolerance ("disaster recovery" and "business continuity") for the major information systems at Pardee.

PERCENT of PATIENTS REPORTING COMPLETE * SATISFACTION WITH INPATIENT CARE PER YEAR



* Rating of 9 or 10 on a 10 point scale (10 being excellent.)

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Healthcare Needs - Henderson County 2011-2012

The passage of the Patient Protection and Affordable Care Act (PPACA) in March 2010 will significantly alter future doctor/hospital relationships, provider risk, demand for health services, and future relationships between health entities, if fully implemented. The strategy for 2011 is to begin positioning the Pardee organization to successfully navigate the changes that will take place in the upcoming years, at the same time continuing strategic initiatives identified in the 2008 strategic plans.

The following priorities have been established.

1. Physician/Clinical Integration – Accountable Care Organizations (ACOs) dominate the future landscape and link physicians and hospitals in ways not previously seen. The ACOs will be managed by physicians and hospitals, and if fully deployed, will lead to a controversial form of managed care where the physicians and hospitals will be at risk together for patient care outcomes. Pardee will continue to enhance its primary care base along with medical and surgical subspecialties necessary to provide a more inclusive and integrated patient experience for Henderson County residents. It is also going to have to work with physicians to develop processes that coordinate treatment for patients across disease states.
2. Service Growth – Efforts will continue to expand clinical services needed by residents and establish new subspecialty initiatives that will enable more residents to receive care closer to home. These efforts will also be very important to position the hospital to have a relevant role in an accountable care system being fostered through the PPACA legislation.
3. Physician Demand – With the advent of Healthcare Reform, the role of the Primary Care Physician will become even more critical in the healthcare delivery system. This is particularly a concern in Henderson County because a significant portion of the independent community primary care physicians in Henderson County are struggling to make ends meet. There appear to be a number of issues contributing to this situation, but none more so than the amount of Medicare patients these primary care physicians see. Generally, once a primary care practice hits 50-60% Medicare, their ability to generate an effective margin is challenged. It is difficult to get an appointment with a primary care physician if you have Medicare. This is particularly the case if you need to see an Internal Medicine Physician. With the addition of 47 plus million newly insured by 2014, this problem will only be exacerbated with primary and specialty physicians alike. The hospital is going to have to increase the number of specialists currently available plus add new specialties to meet this need and avoid the out-migration of county residents for health care services.
4. Maintain low cost provider status – Maintenance of Pardee's current recognition is critical under the ACO concept. Medicare is going to bundle payments for care, and the

ACO will have to determine how the payment is allocated. Teams of caregivers will be financially rewarded for low cost and high quality and financially penalized for cost above what Medicare is willing to pay for the patients' conditions.

5. Uncompensated Care – Pardee has struggled with the issue of uncompensated care for some time now. Our numbers continue to be some of the highest in the State of North Carolina for our size hospital. In this economic climate, the number of patients needing healthcare with no insurance, or who are uninsured, is only increasing. Healthcare Reform has promised to reduce this uncompensated care by providing health coverage for up to 30 million Americans presently not covered by health insurance. Unfortunately, Healthcare Reform will not be fully implemented for up to 7 years and pays for a significant portion of this expanded coverage by reducing payments to hospitals and other providers.
6. Electronic Health Record – To achieve the clinical excellence and operational efficiency needed to deliver exceptional healthcare to our community, we must have seamless and real time information. We need to continue to invest in a sophisticated, flexible, user-friendly IT platform and position Pardee to be the health information hub of our community. Indeed, a significant portion of the recently adopted Stimulus Package is dedicated to the development of an “Electronic Medical Record”, and Pardee is continuing to provide a leadership role in delivering this to Henderson County.
7. Management of Quality – One of the cornerstones of health care reform is the improvement of quality of health care in this country. Added to that expectation is the new reform that rewards providers for exceeding expectations or financially penalize them for failure to meet expectations. The value of Pardee’s commitment to benchmarking and continuous process improvement through its DNV certification program bodes well for meeting the challenge. Pardee has also taken aggressive steps to qualify for certification under ISO 9001 standards utilized by industries worldwide to improve the quality and safety of the products and services which they provide.
8. Partnering- It is unlikely that the Pardee system of medical staff, inpatient, and outpatient services will be able to provide the all inclusive array of health services demanded of an ACO. Pardee is more likely to serve in a defined role as a part of a larger continuum of care. To be a part of a continuum, Pardee will need to partner with other health care organizations which provide levels of care the Pardee does not have the size or population base to support. These partnerships are also likely to involve new locations and services that consumers are demanding, and response to advancing technology which will continue to alter the way care is provided.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Operated Outreach Programs

Meals on Wheels

Pardee Hospital provides the meals (food and preparation) for the Council on Aging Meals on Wheels program with approximately 200 meals per day being prepared. Payment is received from COA, and exceeds Pardee's costs for this service. Since Pardee assumed this role, COA clients receive hot, nutritious, and appropriately modified meals in their homes.

Home Health

Pardee Home Care is a licensed home health provider, providing skilled nursing, physical therapy, occupational therapy, speech therapy, social work services, and nursing assistant services to patients in their homes. Services are rendered based on physician orders and Medicare/Medicaid eligibility criteria. Payments for services come from Medicare, Medicaid, insurance, managed care, and self-pay. Use of Home Health can reduce hospital stays and help to ensure recovery and rehabilitation from acute and chronic illnesses.

Perspectives Diabetes Program

The Perspectives Diabetes Program provides education, instruction and resources to the community regarding diabetes and responsible self-care by offering a self-management education program which emphasizes a healthy lifestyle. The program does generate some Medicare and insurance revenues and eases the burden on physician offices for diabetes education requests.

Cardiac Rehabilitation

Cardiac Rehabilitation is a comprehensive program to assist patients who have suffered a cardiac event to regain their energy and confidence while adapting to necessary changes in diet and lifestyle. The program includes monitored exercises, and education on diet, activity, medications, psychological issues, and stress management. Payment for the services comes from Medicare, Medicaid, and insurance.

Business Industry/Community Wellness and Screening

This initiative takes Pardee screening, education, and preventative programs to interested business, industries, and community groups. Through this service, work site wellness programs can be designed and implemented that meet the needs of employees and employees in diverse settings. Payment for these services is made by the industry requesting the service.

Asthma Education

The Asthma Education program provides support and education to assist clients in managing this chronic disease. The program includes physician asthma management practices, patient asthma management education, and Emergency Department coordination of episodic care with supportive resources for the patient. This concept is being applied to Diabetes Management as well.

Community Laboratory Services

An outreach program through which specimens, collected at off site healthcare facilities, are retrieved by laboratory couriers and delivered to the hospital laboratory for testing. Results are then communicated back to the point of origin via a variety of reporting options. CLS provides high quality, service-oriented laboratory testing from a local source. This service provides a connection for Pardee with local physician practices, nursing care facilities, and other appropriate non-hospital care settings. All third-party billing is completed by the Pardee Hospital billing services.

Lifeline

Lifeline is an easy-to-use personal response service that ensures that older adults living at home get quick assistance whenever it is needed - 24 hours a day, 365 days a year. One is not required to buy any equipment or make a long-term commitment. Lifeline clients pay a reasonable monthly rental fee.

Adult Day Health

Pardee Pavilion is an Adult Day Services Program. A unique blend of activities, health care and socialization for individuals requiring supervision is provided on a daily basis. Participants with complex medical conditions, including Parkinson's Disease, Alzheimer's or other related memory impairments or those recovering from the effects of a stroke are accommodated in a secure and comfortable setting. The program supports families in their resolve to provide love and care to the impaired adult residing at home for as long as possible. Payment is made by the participant, or assistance can be provided by the Veteran's Administration, DSS funding, Alzheimer's Association, Block Grant Funding, CAP and Land Of Sky Regional Council.

Pardee Health Education Center

Pardee Health Education Center provides health education and training via lectures, literature, screenings, and support groups for the residents of our community. Many services are offered at no charge. Screenings do involve a minimal charge to cover supplies and testing. Pardee Health Education Center is the conduit for the community weight loss and lifestyle management program Lighten Up 4 Life. This is a free program that assists with weight loss ideas, healthy recipes, and healthy lifestyle changes.

Family Medicine Residency Program

Henderson County Hospital Corporation partners with Mountain Area Health Education Center (MAHEC) to provide the Hendersonville Family Medicine Residency Program at Hendersonville Family Health Center (HFHC). This program is designed to train family doctors who would like to work as community-oriented physicians in a small town or rural area. Our residents train in a state-of-the-art Family Medicine Center that achieved Level III recognition as a Patient-centered Medical Home by the National Committee on Quality Assurance in the fall of 2010. This is the highest level achievable, and is the only such practice in the county.

Currently, we have nine physician residents in training at HFHC. The center employs three behavioral health faculty to provide not only integrated primary care, but also to serve as co-advisors for the residents of HFHC. In 2007, our residency program was selected as part of an elite group of 14 training programs in the United States to participate in the 5 year P4 project – “Preparing the Personal Physician for Practice”. The project is to demonstrate how leading edge New Model practices can improve quality and access to family doctors serving rural communities.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Information Technology Strategic Initiatives

Electronic Health Record (EHR)

In 2010, IT continued efforts to drive towards a fully integrated EHR (Electronic Health Record) or EMR (Electronic Medical Record) by interfacing Meditech and stand-alone systems such as OBTraceVue for the Women and Children's Center, Endoworks for Endoscopy, Clinical Documentation System and new vital sign monitors. IT completed the upgrade to Meditech 5.6.4 which has enabled Pardee to begin the development of the Meditech's Computerized Provider Order Entry. The TeleVox automated calling system has been expanded to provide patient appointment reminders for Physical, Occupational and Speech Therapy and additional physician practices. To provide patients and caregivers easy access to accurate discharge instructions, medication information and educational videos, the Krames Patient Education software was implemented and accessible via the hospital internet and intranet websites. Additionally, scanning of patient charts into Aquarius is being performed for physician offices.

The user base of Centricity EMR continues to grow. This includes deploying Centricity EMR to Pardee-Mills River Family Practice and two community physician practices in 2010. A total system update to Centricity PM and EMR was performed and included a complete server and software overhaul to handle increased utilization. Centricity EMR has been interfaced with Synapse PACS for Urgent Care.

In 2011, it is anticipated that Centricity EMR will be deployed to three Pardee physician practices currently using a legacy EMR system or none at all. With the additional volume of remote users, the hospital internet connection will be increased from 6MB to 50MB in 2011. Also, the Cancer Center is migrating to a new EMR system (Mosaik) in 2011.

Computerized Provider Order Entry (CPOE)

It is an exciting time at Pardee as the hospital continues the journey to Computerized Provider Order Entry (CPOE). Included in the American Recovery and Reinvestment Act of 2009 (ARRA), providers and hospitals are encouraged to adopt the "Meaningful Use" of certified health IT products such as CPOE. Thus, like Pardee, many hospitals across the region and nation are moving forward with CPOE. At the end of the journey, all of our Providers will be able to enter their pharmacy, radiology and laboratory orders directly into Meditech via order sets and evidence based content. This is intended to improve patient safety in various ways such as reducing translation errors and handwriting interpretation errors of the past. The technology and associated process allows physicians to enter orders directly into Meditech, which will immediately send them to Pharmacy, Laboratory and Radiology, eliminating the wait for a unit clerk or nurse to enter the order into the system. This will provide faster lab results, more timely transports to radiology for procedures, and faster delivery of medications to patients. The system will also notify the provider if another provider has already entered the same order. This could bring down costs associated with duplicate tests and with unneeded tests performed on patients.

The Pardee CPOE Advisory Team has been planning the CPOE implementation since 2010. The team currently consists of those representing associates and medical staff. The Pilot group, PATHS (formerly the mental health unit), has provided positive feedback, such as the process being possibly faster than handwriting the orders. The rollout to PATHS has provided the team with much needed input in order to implement CPOE to other providers. The next groups to join the process will be the TST Hospitalists and the Hendersonville Emergency Physicians in June, 2011. In addition, the CPOE Advisory Team is looking forward to the implementation of CPOE for all remaining providers next fiscal year. From a physician practice perspective, there are many providers using Centricity EMR with CPOE currently. The remaining providers are scheduled to be set up, trained and go-live with Centricity EMR in 2011 or 2012.

Meaningful Use

The American Recovery and Reinvestment Act of 2009 (ARRA), includes billions of dollars in Medicare and Medicaid incentive payments to providers and hospitals for the "Meaningful Use" of certified health IT products. Incentive program basics for Stage 1 are as follows:

- Perform Meaningful Use gap analysis and updated HIPAA Security Analysis
- Must use certified software via new federal process
- Must have 80 percent of patients in the electronic health record (inpatient and ED)
- Hospitals report on 19 of 24 objectives (including CPOE)
- Reporting (demonstration) period is 90 days in the first payment year; one year after that
- Incentive payments received after providing statistics and attestation

Even though Pardee plans to meet Meaningful Use Stage 1 requirements this fiscal year, it is currently being considered whether Pardee should wait until FY 2012 to apply for incentive payments. Waiting until FY 2012 would avoid the risk of losing future incentive payments as software vendors will have 18 months (instead of 6) to certify, supply and install software for Stage 2 at Pardee.

Disaster Recovery and Data Services

IT continues to implement a back-up site as part of the Hospital's disaster recovery plan. The high speed, 1 Gigabyte telecom connection has been implemented between the hospital main server room and the disaster recovery site in Fletcher, NC. The location in Fletcher is on a separate power grid from the main hospital for added protection. The redundant SAN is set up to receive replicated data daily for the core applications and has been relocated to the Fletcher site. In addition, implementation of back-up servers for Meditech, PACS, Centricity, Cloverleaf, Aquarius and many others has been completed representing the Tier 1 or highest priority systems plus numerous Tier 2 systems. With the current configuration and depending upon the type of disaster, it is expected that the hospital could run remotely from this facility in a potentially limited fashion with limited performance. Future project phases will include fail-over testing, the addition of other key systems, and a potential migration to "cloud computing" with a third server room located at the current urgent care facility.

IT continues to generate numerous monthly, quarterly and annual data extracts for internal and external reporting purposes. This has helped Pardee management in continued efforts to identify ways to improve the organization in areas such as employee productivity and physician practice/hospital financials.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Subleases

- Hendersonville Radiological Consultants
- Pardee Hospital Foundation
- WCCC Properties LLC

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Disposition of Property and Discontinued Operations

The Hospital did not dispose of any significant property or discontinue any operation during Fiscal Year ending September 30, 2010.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Acquired Property

The Hospital did not acquire any real property during fiscal year ending September 30, 2010.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Partners in Health

The Board of Commissioners created Partners in Health Condominium in 1999 upon construction of Pardee Care Center (PCC) and Four Seasons Hospice. PCC was sold to Hendersonville Health and Rehab in 2009, but Pardee continues to own and operate the Adult Day Services (Pavilion) in a separate building on the property. The Partners in Health Condominium Board consists of representative members from Four Seasons Hospice, Hendersonville Health and Rehab Services, and Pardee Hospital. Maintenance of and responsibility for the common areas have been delegated to the Partners in Health Condominium Board which meets at least quarterly.

**HENDERSON COUNTY
HOSPITAL CORPORATION**

FY 2011 BUDGET

+Pardee

**As approved by the Board of Directors
September 29, 2010**

**HENDERSON COUNTY HOSPITAL CORPORATION
BOARD OF DIRECTORS' BUDGET EDUCATION PACKAGE
2011 OPERATING BUDGET KEY ASSUMPTIONS: PARDEE HOSPITAL**

1 Patient Volumes, Average Length of Stay (ALOS) & Case Mix Index (CMI)

| | Admissions | | Patient Days | | ALOS | | CMI | |
|------|------------|-------|--------------|-------|-------|-------|--------|-------|
| 2006 | 8,233 | | 34,992 | | 4.261 | | 1.1209 | |
| 2007 | 8,634 | 4.9% | 35,793 | 2.3% | 4.148 | -2.7% | 1.0777 | -3.9% |
| 2008 | 8,222 | -4.8% | 33,639 | -6.0% | 4.097 | -1.2% | 1.1426 | 6.0% |
| 2009 | 7,807 | -5.0% | 31,591 | -6.1% | 4.077 | -0.5% | 1.2140 | 6.2% |
| 2010 | 7,865 | 0.7% | 31,611 | 0.1% | 4.011 | -1.6% | 1.2350 | 1.7% |
| 2011 | 7,862 | 0.0% | 31,449 | -0.5% | 4.000 | -0.3% | 1.2893 | 4.4% |

| | IP Surgeries | | OP Surgeries | | Total Surgeries | | Endoscopies | |
|------|--------------|-------|--------------|------|-----------------|------|-------------|--------|
| 2006 | 2,087 | | 4,580 | | 6,667 | | 4,984 | |
| 2007 | 1,949 | -6.6% | 4,786 | 4.5% | 6,735 | 1.0% | 3,887 | -22.0% |
| 2008 | 1,897 | -2.7% | 5,135 | 7.3% | 7,032 | 4.4% | 4,090 | 5.2% |
| 2009 | 2,017 | 6.3% | 5,151 | 0.3% | 7,168 | 1.9% | 3,425 | -16.3% |
| 2010 | 2,185 | 8.3% | 5,249 | 1.9% | 7,434 | 3.7% | 2,476 | -27.7% |
| 2011 | 2,174 | -0.5% | 5,307 | 1.1% | 7,481 | 0.6% | 2,476 | 0.0% |

| | OBS Hours | | ED Visits | | Lab Procedures | | Physician Office Visits | |
|------|-----------|--------|-----------|-------|----------------|------|-------------------------|--------|
| 2006 | 67,471 | | 30,558 | | 358,220 | | 41,522 | |
| 2007 | 67,510 | 0.1% | 31,817 | 4.1% | 367,960 | 2.7% | 41,091 | -1.0% |
| 2008 | 68,158 | 1.0% | 30,682 | -3.6% | 374,024 | 1.6% | 36,674 | -10.7% |
| 2009 | 81,438 | 19.5% | 32,225 | 5.0% | 398,518 | 6.5% | 57,883 | 57.8% |
| 2010 | 64,113 | -21.3% | 31,923 | -0.9% | 399,045 | 0.1% | 72,733 | 25.7% |
| 2011 | 64,715 | 0.9% | 31,499 | -1.3% | 402,131 | 0.8% | 89,002 | 22.4% |

2 Increase and Government Payment Changes

average of 5% price increase, effective 10/1/10. Gross patient revenues for the hospital will increase \$30.9 million or 9.45% over the projected 2010, of which \$11.4 million or 5% is attributable to the price increase and \$19.5 million or 4.45% is attributable to volume increases and new physician practices. The price increase contributes approximately \$1.3 million to the bottom line.

Medicare: Inpatient decrease of \$264,000, Outpatient: Increase of \$177,000

Medicare Overall: Decrease of \$87,000 or -0.21%

Medicaid: Inpatient assumed to decrease by \$56,000, or 1.5%, Outpatient decrease by \$240,000, or 6.9%.

Medicaid Overall: Decrease of \$296,000 or -3.36%

3 Assumes Medicaid Reimbursement Initiative

| | Payment | Reserved | Net | Change |
|------|--------------|--------------|--------------|--------|
| 2006 | \$ 1,998,926 | \$ (399,785) | \$ 1,599,141 | |
| 2007 | 2,849,000 | (570,000) | 2,279,000 | 42.5% |
| 2008 | 2,795,000 | (559,000) | 2,236,000 | -1.9% |
| 2009 | 3,766,000 | (753,000) | 3,013,000 | 34.7% |
| 2010 | 3,677,000 | (551,000) | 3,126,000 | 3.8% |
| 2011 | 3,000,000 | - | 3,000,000 | -4.0% |

Pardee Hospital has received \$3,677,000 in 2010, of which 15% is currently reserved. FY2009/10 payments included federal stimulus amounts related to the percentage of funds matched by the federal government. The decrease in budgeted MRI payments is the result of anticipated reductions in the Federal Medical Assistance Percentage (FMAP) in the first and second quarters of calendar year 2011. Current reserve status will be reassessed as of 9/30/10.

**HENDERSON COUNTY HOSPITAL CORPORATION
BOARD OF DIRECTORS' BUDGET EDUCATION PACKAGE
2011 OPERATING BUDGET KEY ASSUMPTIONS: PARDEE HOSPITAL**

4 Debt expense is projected to be 5.5% of total gross revenues. Charity is projected to be 1.3%.

| Bad Debt (Hospital Only) | | | Charity | | % Change | Bad Debt/Charity Combined | |
|--------------------------|---------------|-------|---------|--------------|----------|---------------------------|------------------|
| 2006 | \$ 14,863,305 | | 2006 | \$ 2,735,659 | | 2006 | \$ 17,598,964 |
| 2007 | 20,585,349 | 38.5% | 2007 | 3,159,283 | 15.5% | 2007 | 23,744,632 34.9% |
| 2008 | 21,844,286 | 6.1% | 2008 | 3,244,652 | 2.7% | 2008 | 25,088,938 5.7% |
| 2009 | 22,616,052 | 3.5% | 2009 | 3,033,443 | -6.5% | 2009 | 25,649,495 2.2% |
| 2010 | 21,344,837 | -5.6% | 2010 | 3,465,407 | 14.2% | 2010 | 24,810,244 -3.3% |
| 2011 | 19,672,454 | -7.8% | 2011 | 4,750,452 | 37.1% | 2011 | 24,422,906 -1.6% |

On April 1, 2010 the Board approved a new Charity policy which extended additional charity coverages to outpatients. In FY2011 the budget has been established at the state-wide benchmark for Bad Debt to Gross Revenue of 5.5%. Continued improvements in this area requires the coordination of patients with financial counselors throughout the organization, prior to discharge. Phase I of this effort was completed in May 2010 in the Detox and Mental Health areas. The other areas of the hospital will be included as we coordinate such efforts between the Patient Financial Services and Nursing departments. Additional efforts include expansion of precertification efforts by hospital personnel on behalf of physician offices.

5 FTEs, Salaries & Wages:

| | Hospital FTEs | | |
|------|---------------|--------|----------|
| | FTEs | Change | % Change |
| 2006 | 958.40 | | |
| 2007 | 1,004.80 | 46.40 | 4.8% |
| 2008 | 1,006.50 | 1.70 | 0.2% |
| 2009 | 1,026.50 | 20.00 | 2.0% |
| 2010 | 1,040.00 | 13.50 | 1.3% |
| 2011 | 1,037.09 | (2.91) | -0.3% |

Average merit increase of 2.0%, effective April 1, 2011, has been assumed which approximates \$745,000 including effect on PTO bank. The hospital continues to use Thomson Reuters, formerly Solucient, to compare our labor performance by department to external benchmarks.

6 Benefits / Employee Health Expenses

| | Total Benefits | | Employee Health & Drugs | |
|------|----------------|-------|-------------------------|-------|
| | | | | |
| 2006 | 11,080,648 | | 5,977,708 | |
| 2007 | 13,574,421 | 22.5% | 8,068,962 | 35.0% |
| 2008 | 14,016,478 | 3.3% | 7,278,590 | -9.8% |
| 2009 | 13,972,389 | -0.3% | 7,261,493 | -0.2% |
| 2010 | 15,487,272 | 10.8% | 7,995,238 | 10.1% |
| 2011 | 15,919,716 | 2.8% | 7,968,665 | -0.3% |

Total employee benefits consistently run approximately 29% of salaries and wages. The 2011 budget assumes an amount equal to 28.8%. There were no Plan changes in 2010, nor planned in 2011, that would increase employee costs. The cost of coverage changes required by Health Care Reform Mandates (coverage of adult children to age 26 and an unlimited lifetime maximum) are included in the 2011 budget and are offset by improvements to employee health expenditures through an engagement presently under way with the Advisory Board.

7 Billable Supplies

| | Billable Supplies | |
|------|-------------------|-------|
| 2006 | 15,219,364 | |
| 2007 | 16,317,411 | 7.2% |
| 2008 | 16,133,712 | -1.1% |
| 2009 | 17,150,635 | 6.3% |
| 2010 | 18,400,578 | 7.3% |
| 2011 | 24,117,732 | 31.1% |

Billable supplies are budgeted to increase by \$5,717,000 in 2011 primarily due to the hematology and oncology related pharmaceuticals. The hospital utilizes Premier as its Group Purchasing Organization (GPO), which, in addition to providing discounted pricing, allows the hospital to benchmark supply costs to other reporting facilities and to accurately monitor vendor price discounts.

HENDERSON COUNTY HOSPITAL CORPORATION
BOARD OF DIRECTORS' BUDGET EDUCATION PACKAGE
2011 OPERATING BUDGET KEY ASSUMPTIONS: PARDEE HOSPITAL

8 Urgent Care Center

Patient Volumes

| | UCC Visits | | Employee Health Visits | |
|------|------------|----------|------------------------|----------|
| | Visits | % Change | Visits | % Change |
| 2006 | 23,117 | | | |
| 2007 | 24,736 | 7.0% | | |
| 2008 | 24,043 | -2.8% | | |
| 2009 | 25,956 | 8.0% | 4,799 | |
| 2010 | 23,365 | -10.0% | 4,859 | 1.3% |
| 2011 | 22,971 | -1.7% | 4,800 | -1.2% |

The projected decline in volumes is the result of new primary doctors in the community and increased competition.

FTEs, Salaries & Wages:

| | UCC FTEs | | |
|------|----------|--------|----------|
| | FTEs | Change | % Change |
| 2006 | 23.1 | | |
| 2007 | 18.9 | (4.2) | -18.2% |
| 2008 | 20.0 | 1.1 | 5.8% |
| 2009 | 24.7 | 4.7 | 23.5% |
| 2010 | 24.2 | (0.5) | -2.0% |
| 2011 | 24.2 | - | 0.0% |

An average merit increase of 2% has been assumed for 2011.

Overhead Allocation

The budget assumes \$160,416 in overhead allocation which is reflected as an expense within the income statement of Urgent Care and an equal amount reflected as a reduction in expense within the Hospital income statement. The effect of this allocation on the consolidated financial statement is \$0.

HENDERSON COUNTY HOSPITAL CORPORATION
2011 OPERATING BUDGET VERSUS 2010 PROJECTION and 2009 ACTUAL

| | FY 2009 Actual | FY 2010 Budget | FY 2010 Projection | FY 2011 Budget | FY11 Budget to FY10 Proj | FY11 Budget to FY10 Proj |
|------------------------------|--|---------------------|-----------------------|---------------------|-----------------------------|-----------------------------|
| GROSS PATIENT REVENUE | | | | | | |
| 1 | Inpatient Revenue | \$ 130,960,001 | \$ 151,580,856 | \$ 141,212,897 | \$ 148,052,343 | \$ 6,839,446 4.84% |
| 2 | Outpatient Revenue | 187,714,078 | 210,981,581 | 188,879,374 | 213,094,378 | 24,215,004 12.82% |
| 3 | Total Gross Patient Revenue | 318,674,079 | 362,562,437 | 330,092,271 | 361,146,721 | 31,054,450 9.41% |
| REVENUE DEDUCTIONS | | | | | | |
| 4 | Bad Debt | 22,800,604 | 24,339,622 | 21,476,560 | 19,816,200 | (1,660,360) -7.73% |
| 5 | Medicare/Medicaid | 138,217,029 | 159,607,958 | 144,731,526 | 154,035,064 | 9,303,538 6.43% |
| 6 | Managed Care/Comm'l | 28,254,257 | 38,597,947 | 34,911,307 | 42,960,716 | 8,049,409 23.06% |
| 7 | Charity | 3,033,443 | 3,588,389 | 3,465,407 | 4,750,452 | 1,285,045 37.08% |
| 8 | Other Deductions | 1,546,384 | 1,304,213 | 664,234 | 738,037 | 73,803 11.11% |
| 9 | Total Revenue Deductions | 193,851,717 | 227,438,129 | 205,249,034 | 222,300,469 | 17,051,435 8.31% |
| 10 | Rev Deduct as a % of Gross Rev | 60.8% | 62.7% | 62.2% | 61.6% | |
| 11 | Net Patient Service Revenue | 124,822,362 | 135,124,308 | 124,843,237 | 138,846,252 | 14,003,015 11.22% |
| 12 | Other Operating Income | 2,440,677 | 2,426,859 | 2,435,011 | 2,620,287 | 185,276 7.61% |
| 13 | Total Operating Revenue | 127,263,039 | 137,551,167 | 127,278,248 | 141,466,539 | 14,188,291 11.15% |
| OPERATING EXPENSES | | | | | | |
| 14 | Salaries and Wages | 51,459,009 | 56,320,898 | 53,538,990 | 56,686,347 | 3,147,357 5.88% |
| 15 | Employee Benefits | 14,367,450 | 15,999,118 | 15,922,237 | 16,336,134 | 413,897 2.60% |
| 16 | Contract Labor | 1,081,911 | 968,859 | 1,082,635 | 841,079 | (241,556) -22.31% |
| 17 | Physician Fees | 1,722,024 | 1,739,854 | 1,791,086 | 2,158,416 | 367,330 20.51% |
| 18 | Contract Fees | 7,507,057 | 8,071,730 | 7,245,837 | 8,271,299 | 1,025,462 14.15% |
| 19 | Billable Supplies | 17,319,364 | 19,599,665 | 18,557,503 | 24,279,934 | 5,722,431 30.84% |
| 20 | Miscellaneous Supplies | 6,015,897 | 6,392,551 | 5,843,088 | 6,081,161 | 238,073 4.07% |
| 21 | Minor Equipment | 498,246 | 342,006 | 412,361 | 349,116 | (63,245) -15.34% |
| | Training & Travel | 342,634 | 361,332 | 307,346 | 342,394 | 35,048 11.40% |
| | Utilities | 2,555,445 | 2,743,716 | 2,709,907 | 2,820,178 | 110,271 4.07% |
| 24 | Maintenance & Repairs | 4,656,439 | 5,661,318 | 4,919,521 | 5,438,632 | 519,111 10.55% |
| 25 | Insurance | 1,360,672 | 1,639,664 | 1,435,346 | 1,578,246 | 142,900 9.96% |
| 26 | Rentals & Leases | 1,744,225 | 2,282,198 | 2,338,370 | 2,413,917 | 75,547 3.23% |
| 27 | Other Expense | 1,708,075 | 1,859,656 | 1,703,086 | 1,835,225 | 132,139 7.76% |
| 28 | Total Operating Expenses | 112,338,448 | 123,982,565 | 117,807,313 | 129,432,078 | 11,624,765 9.87% |
| 29 | Gross Operating Margin | 14,924,591 | 13,568,602 | 9,470,935 | 12,034,461 | 2,563,526 27.07% |
| 30 | Depreciation | 9,910,637 | 9,272,670 | 8,594,566 | 9,163,423 | 568,857 6.62% |
| 31 | Net Operating Margin | 5,013,954 | 4,295,932 | 876,369 | 2,871,038 | 1,994,669 -227.61% |
| 32 | Investment Activity | 1,134,403 | 939,683 | 604,094 | 649,654 | 45,560 7.54% |
| 33 | Grants and Donations | 1,066,409 | 1,635,966 | 1,123,921 | 1,689,844 | 565,923 50.35% |
| 34 | Contributions to Foundation | (581,450) | (599,951) | (525,413) | (604,482) | (79,069) 15.05% |
| 35 | Interest Expense | (490,688) | (625,514) | (594,522) | (594,068) | 454 -0.08% |
| 36 | Other Non-Operating | 556 | - | 427,118 | - | (427,118) -100.00% |
| 37 | Total Non-Operating Income | 1,129,230 | 1,350,184 | 1,035,198 | 1,140,948 | 105,750 10.22% |
| 38 | Net Income (Loss) | \$ 6,143,184 | \$ 5,646,116 | \$ 1,911,567 | \$ 4,011,986 | \$ 2,100,419 109.88% |
| 39 | Net Oper Margin to Total Oper Rev | 3.94% | 3.12% | 0.69% | 2.03% | |
| 40 | Net Income to Total Operating Rev | 4.83% | 4.10% | 1.50% | 2.84% | |
| 41 | Avg FTE's (Employee and Contract) | 1,051.2 | 1,083.1 | 1,064.2 | 1,061.3 | (2.9) -0.27% |

HENDERSON COUNTY HOSPITAL CORPORATION
2011 OPERATING BUDGET LINE ITEM PERCENTAGE ANALYSIS

| | "A" | FY 2009 Actual | "B" | "A" | FY 2010 Projection | "B" | "A" | FY 2011 Budget | "B" |
|------------------------------|--|-------------------|---------------------|---------------|-----------------------|---------------------|---------------|---------------------|---------------|
| GROSS PATIENT REVENUE | | | | | | | | | |
| 1 | Inpatient Revenue | 41.1% | \$ 130,960,001 | | 42.8% | \$ 141,212,897 | 41.0% | \$ 148,052,343 | |
| 2 | Outpatient Revenue | 58.9% | 187,714,078 | | 57.2% | 188,879,374 | 59.0% | 213,094,378 | |
| 3 | Total Gross Patient Revenue | 100.0% | 318,674,079 | | 100.0% | 330,092,271 | 100.0% | 361,146,721 | |
| REVENUE DEDUCTIONS | | | | | | | | | |
| 4 | Bad Debt | 7.2% | 22,800,604 | | 6.5% | 21,476,560 | 5.5% | 19,816,200 | |
| 5 | Medicare/Medicaid | 43.4% | 138,217,029 | | 43.8% | 144,731,526 | 42.7% | 154,035,064 | |
| 6 | Managed Care/Comm'l | 8.9% | 28,254,257 | | 10.6% | 34,911,307 | 11.9% | 42,960,716 | |
| 7 | Charity | 1.0% | 3,033,443 | | 1.0% | 3,465,407 | 1.3% | 4,750,452 | |
| 8 | Other Deductions | 0.5% | 1,546,384 | | 0.2% | 664,234 | 0.2% | 738,037 | |
| 9 | Total Revenue Deductions | 60.8% | 193,851,717 | | 62.2% | 205,249,034 | 61.6% | 222,300,469 | |
| 10 | Net Patient Service Revenue | 39.2% | 124,822,362 | | 37.8% | 124,843,237 | 38.4% | 138,846,252 | |
| 11 | Other Operating Income | 0.8% | 2,440,677 | | 0.7% | 2,435,011 | 0.7% | 2,620,287 | |
| 12 | Total Operating Revenue | 39.9% | 127,263,039 | 100.0% | 38.6% | 127,278,248 | 100.0% | 141,466,539 | 100.0% |
| OPERATING EXPENSES | | | | | | | | | |
| 13 | Salaries and Wages | 16.1% | 51,459,009 | 40.4% | 16.2% | 53,538,990 | 42.1% | 56,686,347 | 40.1% |
| 14 | Employee Benefits | 4.5% | 14,367,450 | 11.3% | 4.8% | 15,922,237 | 12.5% | 16,336,134 | 11.5% |
| 15 | Contract Labor | 0.3% | 1,081,911 | 0.9% | 0.3% | 1,082,635 | 0.9% | 841,079 | 0.6% |
| 16 | Physician Fees | 0.5% | 1,722,024 | 1.4% | 0.5% | 1,791,086 | 1.4% | 2,158,416 | 1.5% |
| 17 | Contract Fees | 2.4% | 7,507,057 | 5.9% | 2.2% | 7,245,837 | 5.7% | 8,271,299 | 5.8% |
| 18 | Billable Supplies | 5.4% | 17,319,364 | 13.6% | 5.6% | 18,557,503 | 14.6% | 24,279,934 | 17.2% |
| 19 | Miscellaneous Supplies | 1.9% | 6,015,897 | 4.7% | 1.8% | 5,843,088 | 4.6% | 6,081,161 | 4.3% |
| 20 | Minor Equipment | 0.2% | 498,246 | 0.4% | 0.1% | 412,361 | 0.3% | 349,116 | 0.2% |
| | Training & Travel | 0.1% | 342,634 | 0.3% | 0.1% | 307,346 | 0.2% | 342,394 | 0.2% |
| | Utilities | 0.8% | 2,555,445 | 2.0% | 0.8% | 2,709,907 | 2.1% | 2,820,178 | 2.0% |
| 23 | Maintenance & Repairs | 1.5% | 4,656,439 | 3.7% | 1.5% | 4,919,521 | 3.9% | 5,438,632 | 3.8% |
| 24 | Insurance | 0.4% | 1,360,672 | 1.1% | 0.4% | 1,435,346 | 1.1% | 1,578,246 | 1.1% |
| 25 | Rentals & Leases | 0.5% | 1,744,225 | 1.4% | 0.7% | 2,338,370 | 1.8% | 2,413,917 | 1.7% |
| 26 | Other Expense | 0.5% | 1,708,075 | 1.3% | 0.5% | 1,703,086 | 1.3% | 1,835,225 | 1.3% |
| 27 | Total Operating Expenses | 35.3% | 112,338,448 | 88.3% | 35.7% | 117,807,313 | 92.6% | 129,432,078 | 91.5% |
| 28 | Gross Operating Margin | 4.7% | 14,924,591 | 11.7% | 2.9% | 9,470,935 | 7.4% | 12,034,461 | 8.5% |
| 29 | Depreciation | 3.1% | 9,910,637 | 7.8% | 2.6% | 8,594,566 | 6.8% | 9,163,423 | 6.5% |
| 30 | Net Operating Margin | 1.6% | 5,013,954 | 3.9% | 0.3% | 876,369 | 0.7% | 2,871,038 | 2.0% |
| 31 | Investment Activity | 0.4% | 1,134,403 | 0.9% | 0.2% | 604,094 | 0.5% | 649,654 | 0.5% |
| 32 | Grants and Donations | 0.3% | 1,066,409 | 0.8% | 0.3% | 1,123,921 | 0.9% | 1,689,844 | 1.2% |
| 33 | Contributions to Foundation | -0.2% | (581,450) | -0.5% | -0.2% | (525,413) | -0.4% | (604,482) | -0.4% |
| 34 | Interest Expense | -0.2% | (490,688) | -0.4% | -0.2% | (594,522) | -0.5% | (594,068) | -0.4% |
| 35 | Gain on Sale of Asset | 0.0% | 556 | 0.0% | 0.1% | 427,118 | 0.3% | - | - |
| 36 | Total Non-Operating Income | 0.4% | 1,129,230 | 0.9% | 0.3% | 1,035,198 | 0.8% | 1,140,948 | 0.8% |
| 37 | Net Income (Loss) | 1.9% | \$ 6,143,184 | 4.8% | 0.6% | \$ 1,911,567 | 1.5% | \$ 4,011,986 | 2.8% |
| 38 | Net Oper Margin to Total Oper Rev | | 3.94% | | | 0.69% | | 2.03% | |
| 39 | Net Income to Total Operating Rev | | 4.83% | | | 1.50% | | 2.84% | |
| 40 | Avg FTE's (Employee and Contract) | | 1,051.2 | | | 1,064.2 | | 1,061.3 | |

"A" Percentage of item as compared to Total Gross Patient Revenues

"B" Percentage of item as compared to Total Operating Revenues

MARGARET R PARDEE MEMORIAL HOSPITAL
2011 OPERATING BUDGET VERSUS 2010 PROJECTION and 2009 ACTUAL

| | FY 2009 Actual | FY 2010 Budget | FY 2010 Projection | FY 2011 Budget | FY11 Budget to FY10 Proj | FY11 Budget to FY10 Proj | |
|------------------------------|--|---------------------|-----------------------|---------------------|-----------------------------|-----------------------------|----------------|
| GROSS PATIENT REVENUE | | | | | | | |
| 1 | Inpatient Revenue | \$ 130,960,001 | \$ 151,580,856 | \$ 141,212,897 | \$ 148,052,343 | \$ 6,839,446 | 4.84% |
| 2 | Outpatient Revenue | 184,152,001 | 207,258,088 | 185,589,066 | 209,628,640 | 24,039,574 | 12.95% |
| 3 | Total Gross Patient Revenue | 315,112,002 | 358,838,944 | 326,801,963 | 357,680,983 | 30,879,020 | 9.45% |
| REVENUE DEDUCTIONS | | | | | | | |
| 4 | Bad Debt | 22,616,052 | 24,121,929 | 21,344,837 | 19,672,454 | (1,672,383) | -7.84% |
| 5 | Medicare/Medicaid | 137,768,088 | 159,151,431 | 144,285,755 | 153,555,526 | 9,269,771 | 6.42% |
| 6 | Managed Care/Comm'l | 27,335,699 | 37,661,469 | 34,076,963 | 42,071,887 | 7,994,924 | 23.46% |
| 7 | Charity | 3,033,443 | 3,588,389 | 3,465,407 | 4,750,452 | 1,285,045 | 37.08% |
| 8 | Other Deductions | 1,546,384 | 1,304,213 | 664,234 | 738,037 | 73,803 | 11.11% |
| 9 | Total Revenue Deductions | 192,299,666 | 225,827,431 | 203,837,196 | 220,788,356 | 16,951,160 | 8.32% |
| 10 | Rev Deduct as a % of Gross Rev | 61.0% | 62.9% | 62.4% | 61.7% | | |
| 11 | Net Patient Service Revenue | 122,812,336 | 133,011,513 | 122,964,767 | 136,892,627 | 13,927,860 | 11.33% |
| 12 | Other Operating Income | 2,185,990 | 2,123,829 | 2,134,590 | 2,349,075 | 214,485 | 10.05% |
| 13 | Total Operating Revenue | 124,998,326 | 135,135,342 | 125,099,357 | 139,241,702 | 14,142,345 | 11.30% |
| OPERATING EXPENSES | | | | | | | |
| 14 | Salaries and Wages | 50,029,624 | 54,926,323 | 52,076,494 | 55,233,789 | 3,157,295 | 6.06% |
| 15 | Employee Benefits | 13,972,389 | 15,594,692 | 15,487,272 | 15,919,716 | 432,444 | 2.79% |
| 16 | Contract Labor | 1,081,911 | 968,859 | 1,082,635 | 841,079 | (241,556) | -22.31% |
| 17 | Physician Fees | 1,657,606 | 1,687,245 | 1,734,636 | 2,095,662 | 361,026 | 20.81% |
| 18 | Contract Fees | 7,470,190 | 8,042,344 | 7,214,745 | 8,194,020 | 979,275 | 13.57% |
| 19 | Billable Supplies | 17,150,635 | 19,420,065 | 18,400,578 | 24,117,732 | 5,717,154 | 31.07% |
| 20 | Miscellaneous Supplies | 5,938,660 | 6,321,325 | 5,772,241 | 6,029,668 | 257,427 | 4.46% |
| 21 | Minor Equipment | 496,996 | 338,506 | 409,122 | 346,292 | (62,830) | -15.36% |
| | Training & Travel | 326,803 | 339,332 | 298,531 | 322,394 | 23,863 | 7.99% |
| | Utilities | 2,540,315 | 2,729,519 | 2,694,422 | 2,804,268 | 109,846 | 4.08% |
| 24 | Maintenance & Repairs | 4,651,998 | 5,652,112 | 4,915,364 | 5,431,857 | 516,493 | 10.51% |
| 25 | Insurance | 1,301,439 | 1,609,314 | 1,405,346 | 1,548,246 | 142,900 | 10.17% |
| 26 | Rentals & Leases | 1,693,871 | 2,237,340 | 2,290,962 | 2,366,716 | 75,754 | 3.31% |
| 27 | Other Expense | 1,537,307 | 1,683,231 | 1,528,295 | 1,659,865 | 131,570 | 8.61% |
| 28 | Total Operating Expenses | 109,849,744 | 121,550,207 | 115,310,643 | 126,911,304 | 11,600,661 | 10.06% |
| 29 | Gross Operating Margin | 15,148,582 | 13,585,135 | 9,788,714 | 12,330,398 | 2,541,684 | 25.97% |
| 30 | Depreciation | 9,838,633 | 9,200,000 | 8,523,246 | 9,100,000 | 576,754 | 6.77% |
| 31 | Net Operating Margin | 5,309,949 | 4,385,135 | 1,265,468 | 3,230,398 | 1,964,930 | 155.27% |
| 32 | Investment Activity | 1,134,403 | 939,683 | 604,094 | 649,654 | 45,560 | 7.54% |
| 33 | Grants and Donations | 1,066,409 | 1,635,966 | 1,123,921 | 1,689,844 | 565,923 | 50.35% |
| 34 | Contributions to Foundation | (581,450) | (599,951) | (525,413) | (604,482) | (79,069) | 15.05% |
| 35 | Interest Expense | (490,688) | (625,514) | (594,522) | (594,068) | 454 | -0.08% |
| 36 | Other Non-Operating | 556 | - | 427,118 | - | (427,118) | -100.00% |
| 37 | Total Non-Operating Income | 1,129,230 | 1,350,184 | 1,035,198 | 1,140,948 | 105,750 | 10.22% |
| 38 | Net Income (Loss) | \$ 6,439,179 | \$ 5,735,319 | \$ 2,300,666 | \$ 4,371,346 | \$ 2,070,680 | 90.00% |
| 39 | Net Oper Margin to Total Oper Rev | 4.25% | 3.24% | 1.01% | 2.32% | | |
| 40 | Net Income to Total Operating Rev | 5.15% | 4.24% | 1.84% | 3.14% | | |
| 41 | Avg FTE's (Employee and Contract) | 1,026.5 | 1,058.8 | 1,040.0 | 1,037.1 | (2.9) | -0.28% |

MARGARET R PARDEE MEMORIAL HOSPITAL
2011 OPERATING BUDGET LINE ITEM PERCENTAGE ANALYSIS

| | "A" | FY 2009 Actual | "B" | "A" | FY 2010 Projection | "B" | "A" | FY 2011 Budget | "B" |
|------------------------------|-----|--|---------------|---------------------|-----------------------|---------------------|---------------|---------------------|---------------|
| GROSS PATIENT REVENUE | | | | | | | | | |
| 1 | | Inpatient Revenue | 41.6% | \$ 130,960,001 | 43.2% | \$ 141,212,897 | 41.4% | \$ 148,052,343 | |
| 2 | | Outpatient Revenue | 58.4% | 184,152,001 | 56.8% | 185,589,066 | 58.6% | 209,628,640 | |
| 3 | | Total Gross Patient Revenue | 100.0% | 315,112,002 | 100.0% | 326,801,963 | 100.0% | 357,680,983 | |
| REVENUE DEDUCTIONS | | | | | | | | | |
| 4 | | Bad Debt | 7.2% | 22,616,052 | 6.5% | 21,344,837 | 5.5% | 19,672,454 | |
| 5 | | Medicare/Medicaid | 43.7% | 137,768,088 | 44.2% | 144,285,755 | 42.9% | 153,555,526 | |
| 6 | | Managed Care/Comm'l | 8.7% | 27,335,699 | 10.4% | 34,076,963 | 11.8% | 42,071,887 | |
| 7 | | Charity | 1.0% | 3,033,443 | 1.1% | 3,465,407 | 1.3% | 4,750,452 | |
| 8 | | Other Deductions | 0.5% | 1,546,384 | 0.2% | 664,234 | 0.2% | 738,037 | |
| 9 | | Total Revenue Deductions | 61.0% | 192,299,666 | 62.4% | 203,837,196 | 61.7% | 220,788,356 | |
| 11 | | Net Patient Service Revenue | 39.0% | 122,812,336 | 37.6% | 122,964,767 | 38.3% | 136,892,627 | |
| 12 | | Other Operating Income | 0.7% | 2,185,990 | 0.7% | 2,134,590 | 0.7% | 2,349,075 | |
| 13 | | Total Operating Revenue | 39.7% | 124,998,326 | 100.0% | 125,099,357 | 100.0% | 139,241,702 | 100.0% |
| OPERATING EXPENSES | | | | | | | | | |
| 14 | | Salaries and Wages | 15.9% | 50,029,624 | 40.0% | 52,076,494 | 41.6% | 55,233,789 | 39.7% |
| 15 | | Employee Benefits | 4.4% | 13,972,389 | 11.2% | 15,487,272 | 12.4% | 15,919,716 | 11.4% |
| 16 | | Contract Labor | 0.3% | 1,081,911 | 0.9% | 1,082,635 | 0.9% | 841,079 | 0.6% |
| 17 | | Physician Fees | 0.5% | 1,657,606 | 1.3% | 1,734,636 | 1.4% | 2,095,662 | 1.5% |
| 18 | | Contract Fees | 2.4% | 7,470,190 | 6.0% | 7,214,745 | 5.8% | 8,194,020 | 5.9% |
| 19 | | Billable Supplies | 5.4% | 17,150,635 | 13.7% | 18,400,578 | 14.7% | 24,117,732 | 17.3% |
| 20 | | Miscellaneous Supplies | 1.9% | 5,938,660 | 4.8% | 5,772,241 | 4.6% | 6,029,668 | 4.3% |
| 21 | | Minor Equipment | 0.2% | 496,996 | 0.4% | 409,122 | 0.3% | 346,292 | 0.2% |
| 22 | | Training & Travel | 0.1% | 326,803 | 0.3% | 298,531 | 0.2% | 322,394 | 0.2% |
| | | Utilities | 0.8% | 2,540,315 | 2.0% | 2,694,422 | 2.2% | 2,804,268 | 2.0% |
| | | Maintenance & Repairs | 1.5% | 4,651,998 | 3.7% | 4,915,364 | 3.9% | 5,431,857 | 3.9% |
| 25 | | Insurance | 0.4% | 1,301,439 | 1.0% | 1,405,346 | 1.1% | 1,548,246 | 1.1% |
| 26 | | Rentals & Leases | 0.5% | 1,693,871 | 1.4% | 2,290,962 | 1.8% | 2,366,716 | 1.7% |
| 27 | | Other Expense | 0.5% | 1,537,307 | 1.2% | 1,528,295 | 1.2% | 1,659,865 | 1.2% |
| 28 | | Total Operating Expenses | 34.9% | 109,849,744 | 87.9% | 115,310,643 | 92.2% | 126,911,304 | 91.1% |
| 29 | | Gross Operating Margin | 4.8% | 15,148,582 | 12.1% | 9,788,714 | 7.8% | 12,330,398 | 8.9% |
| 30 | | Depreciation | 3.1% | 9,838,633 | 7.9% | 8,523,246 | 6.8% | 9,100,000 | 6.5% |
| 32 | | Net Operating Margin | 1.7% | 5,309,949 | 4.2% | 1,265,468 | 1.0% | 3,230,398 | 2.3% |
| 33 | | Investment Activity | 0.4% | 1,134,403 | 0.9% | 604,094 | 0.5% | 649,654 | 0.5% |
| 34 | | Grants and Donations | 0.3% | 1,066,409 | 0.9% | 1,123,921 | 0.9% | 1,689,844 | 1.2% |
| 35 | | Contributions to Foundation | -0.2% | (581,450) | -0.5% | (525,413) | -0.4% | (604,482) | -0.4% |
| 31 | | Interest Expense | -0.2% | (490,688) | -0.4% | (594,522) | -0.5% | (594,068) | -0.4% |
| 36 | | Gain on Sale of Asset | 0.0% | 556 | 0.0% | 427,118 | 0.3% | - | 0.0% |
| 37 | | Total Non-Operating Income | 0.4% | 1,129,230 | 0.9% | 1,035,198 | 0.8% | 1,140,948 | 0.8% |
| 38 | | Net Income (Loss) | 2.0% | \$ 6,439,179 | 5.2% | \$ 2,300,666 | 1.8% | \$ 4,371,346 | 3.1% |
| 39 | | Net Oper Margin to Total Oper Rev | | 4.25% | | 1.01% | | 2.32% | |
| 40 | | Net Income to Total Operating Rev | | 5.15% | | 1.84% | | 3.14% | |
| 41 | | Avg FTE's (Employee and Contract) | | 1,026.5 | | 1,040.0 | | 1,037.1 | |

"A" Percentage of item as compared to Total Gross Patient Revenues

"B" Percentage of item as compared to Total Operating Revenues

PARDEE URGENT CARE CENTER

2011 OPERATING BUDGET VERSUS 2010 PROJECTION and 2009 ACTUAL

| | FY 2009 Actual | FY 2010 Budget | FY 2010 Projection | FY 2011 Budget | FY11 Budget to FY10 Proj | FY11 Budget to FY10 Proj |
|------------------------------|--|---------------------|-----------------------|---------------------|-----------------------------|-----------------------------|
| GROSS PATIENT REVENUE | | | | | | |
| 1 | Outpatient Revenue | \$ 3,562,077 | \$ 3,723,493 | \$ 3,290,308 | \$ 3,465,738 | \$ 175,430 5.33% |
| 2 | Total Gross Patient Revenue | 3,562,077 | 3,723,493 | 3,290,308 | 3,465,738 | 175,430 5.33% |
| REVENUE DEDUCTIONS | | | | | | |
| 3 | Bad Debt | 184,552 | 217,693 | 131,723 | 143,746 | 12,023 9.13% |
| 4 | Medicare/Medicaid | 448,941 | 456,527 | 445,771 | 479,538 | 33,767 7.57% |
| 5 | Managed Care/Comm'l | 918,558 | 936,478 | 834,344 | 888,829 | 54,485 6.53% |
| 6 | Charity | - | - | - | - | - 0.00% |
| 7 | Other Deductions | - | - | - | - | - 0.00% |
| 8 | Total Revenue Deductions | 1,552,051 | 1,610,698 | 1,411,838 | 1,512,113 | 100,275 7.10% |
| 9 | Rev Deduct as a % of Gross Rev | 43.6% | 43.3% | 42.9% | 43.6% | |
| 10 | Net Patient Service Revenue | 2,010,026 | 2,112,795 | 1,878,470 | 1,953,625 | 75,155 4.00% |
| 11 | Other Operating Income | 254,687 | 303,030 | 300,421 | 271,212 | (29,209) -9.72% |
| 12 | Total Operating Revenue | 2,264,713 | 2,415,825 | 2,178,891 | 2,224,837 | 45,946 2.11% |
| OPERATING EXPENSES | | | | | | |
| 13 | Salaries and Wages | 1,429,385 | 1,394,575 | 1,462,496 | 1,452,558 | (9,938) -0.68% |
| 14 | Employee Benefits | 395,061 | 404,426 | 434,965 | 416,418 | (18,547) -4.26% |
| 15 | Contract Labor | - | - | - | - | - 0.00% |
| 16 | Physician Fees | 64,418 | 52,609 | 56,450 | 62,754 | 6,304 11.17% |
| 17 | Contract Fees | 36,867 | 29,386 | 31,092 | 77,279 | 46,187 148.55% |
| 18 | Billable Supplies | 168,729 | 179,600 | 156,925 | 162,202 | 5,277 3.36% |
| 19 | Miscellaneous Supplies | 77,237 | 71,226 | 70,847 | 51,493 | (19,354) -27.32% |
| 20 | Minor Equipment | 1,250 | 3,500 | 3,239 | 2,824 | (415) -12.81% |
| 21 | Training & Travel | 15,831 | 22,000 | 8,815 | 20,000 | 11,185 126.89% |
| 22 | Utilities | 15,130 | 14,197 | 15,485 | 15,910 | 425 2.74% |
| | Maintenance & Repairs | 4,441 | 9,206 | 4,157 | 6,775 | 2,618 62.98% |
| 24 | Insurance | 59,233 | 30,350 | 30,000 | 30,000 | - 0.00% |
| 25 | Rentals & Leases | 50,354 | 44,858 | 47,408 | 47,201 | (207) -0.44% |
| 26 | Other Expense | 15,728 | 16,000 | 14,375 | 14,944 | 569 3.96% |
| 27 | Corporate Overhead Allocation | 155,040 | 160,425 | 160,416 | 160,416 | - 0.00% |
| 28 | Total Operating Expenses | 2,488,704 | 2,432,358 | 2,496,670 | 2,520,774 | 24,104 0.97% |
| 29 | Gross Operating Margin | (223,991) | (16,533) | (317,779) | (295,937) | 21,842 6.87% |
| 30 | Depreciation | 48,208 | 48,275 | 46,924 | 39,027 | (7,897) -16.83% |
| 31 | Corporate Overhead Allocation | 23,796 | 24,395 | 24,396 | 24,396 | - 0.00% |
| 32 | Net Operating Margin | (295,995) | (89,203) | (389,099) | (359,360) | 29,739 7.64% |
| 33 | Net Income (Loss) | \$ (295,995) | \$ (89,203) | \$ (389,099) | \$ (359,360) | \$ 29,739 7.64% |
| 34 | Net Oper Margin to Total Oper Rev | -13.07% | -3.69% | -17.86% | -16.15% | |
| 35 | Net Income to Total Operating Rev | -13.07% | -3.69% | -17.86% | -16.15% | |
| 36 | Avg FTE's (Employee and Contract) | 24.7 | 24.3 | 24.2 | 24.2 | - 0.00% |

HENDERSON COUNTY HOSPITAL CORPORATION

CAPITAL BUDGET FY 2011

| Department | Type | Description | Funded by Operations | Grants and Donations | FY 2011 Budget |
|------------------------|----------|--|----------------------|----------------------|----------------------|
| Anesthesiology | Biomed | Anesthesia machines with monitor package (6ea) | | 546,911 | 546,911 |
| One West Stepdown | Biomed | Whole house Telemetry Heart Monitor System | | 405,763 | 405,763 |
| Mammography | Biomed | Digital Mammography - replacement | 172,484 | 226,516 | 399,000 |
| Radiation Therapy | Biomed | Radiation Treatment Design & Plan Cone Beam Therapy | 339,500 | | 339,500 |
| Ultrasound | Biomed | U22 Ultrasound unit | 226,000 | | 226,000 |
| Respiratory Therapy | Biomed | Acute Care Ventilators (4 ea) | | 138,701 | 138,701 |
| Laboratory | Biomed | Pathology Slide Stainer | 122,000 | | 122,000 |
| Operating Room | Biomed | Operating Room bed, standard, electric (1ea) | | 37,298 | 37,298 |
| Radiation Therapy | IT | Paperless EHR - Upgraded R and V system Mosaic Impac | 399,000 | | 399,000 |
| Information Technology | IT | Meditech Interfaces | 314,560 | | 314,560 |
| Information Technology | IT | Electronic Medical Record | 300,000 | | 300,000 |
| Information Technology | IT | Home Health PM/EMR system | 257,474 | | 257,474 |
| Information Technology | IT | Network Growth and Replacement FY 2011 continuation | 218,334 | | 218,334 |
| Information Technology | IT | Voice Over Internet Protocol (VOIP) Phone System | 215,000 | | 215,000 |
| Information Technology | IT | PHY CPOE and Physician Documentation | 213,262 | | 213,262 |
| Information Technology | IT | PC's and peripherals | 175,000 | | 175,000 |
| Information Technology | IT | Patient Portal - Patients access medical record online | | 155,000 | 155,000 |
| GE Rhio/MD Connect | IT | PHY MD Connect Software Licensing and Tools (10ea) | 135,250 | | 135,250 |
| Information Technology | IT | Pillar SAN Storage | 124,000 | | 124,000 |
| Information Technology | IT | Replace Radiology Image Readers | 122,423 | | 122,423 |
| Information Technology | IT | Medication Management | | 119,010 | 119,010 |
| Information Technology | IT | Server Virtualization and Disaster Recovery | 107,235 | | 107,235 |
| Information Technology | IT | Rad Therapy Profiler, Dosimetry System, Quality software | 97,000 | | 97,000 |
| Engineering | Projects | General Upfit FY 2011 | 400,000 | | 400,000 |
| Emergency Dept | Projects | Emergency Department Psych area | 260,000 | | 260,000 |
| Engineering | Projects | Hospital Environmental Upgrades | 250,000 | | 250,000 |
| Engineering | Projects | Replace Roof over Operating Rooms #1 and #2 | 235,000 | | 235,000 |
| Engineering | Projects | Parking Deck Repairs | 150,000 | | 150,000 |
| Engineering | Projects | Upfit - Physician Practice and Outbuilding | 125,000 | | 125,000 |
| Sleep Lab | Projects | Sleep Center Workstations (4ea) | 118,385 | | 118,385 |
| Engineering | Projects | Extend fire sprinklers to unsprinkled areas | 100,000 | | 100,000 |
| Administration | Other | Contingency - FY 2011 | 900,000 | | 900,000 |
| | | Miscellaneous and Other | 2,154,377 | 60,645 | 2,215,022 |
| Routine Capital | | | \$ 8,231,284 | \$ 1,689,844 | \$ 9,921,128 |
| Strategic Capital | | Mission/Pardee Health Campus | 3,000,000 | | 3,000,000 |
| Total Capital | | | \$ 11,231,284 | \$ 1,689,844 | \$ 12,921,128 |

Previous Year Capital Budgets

| | | | |
|--------|-----------|-----------|------------|
| FY2010 | 8,094,332 | 1,635,966 | 9,730,298 |
| FY2009 | 9,734,956 | 1,259,044 | 10,994,000 |
| FY2008 | 7,430,000 | 2,070,000 | 9,500,000 |
| FY2007 | 7,715,238 | 1,217,351 | 8,932,589 |
| FY2006 | 6,581,444 | 1,737,356 | 8,318,800 |

**HENDERSON COUNTY HOSPITAL CORPORATION, INC.
D/B/A MARGARET R. PARDEE MEMORIAL HOSPITAL
AND AFFILIATES
(A COMPONENT UNIT OF HENDERSON COUNTY)
COMBINED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
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YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Henderson County Hospital Corporation, Inc. d/b/a
Margaret R. Pardee Memorial Hospital and Affiliates
Hendersonville, North Carolina

We have audited the accompanying combined balance sheets of Henderson County Hospital Corporation, Inc. d/b/a Margaret R. Pardee Memorial Hospital and Affiliates (the "Corporation") as of September 30, 2010 and 2009, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Henderson County Hospital Corporation, Inc. d/b/a Margaret R. Pardee Memorial Hospital and Affiliates as of September 30, 2010 and 2009, and their combined changes in financial position and cash flows for the years then ended.

The management's discussion and analysis included on pages 2 through 6 is not a required part of the basic combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.



LarsonAllen LLP

Charlotte, North Carolina
January 13, 2011

(1)



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a worldwide network of independent accounting and consulting firms.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010 AND 2009**

Our discussion and analysis of the combined financial performance of Margaret R. Pardee Memorial Hospital and Affiliates (the "Corporation") provides an overview of Pardee's financial activities for the fiscal years ended September 30, 2010 and 2009. Please read this information in conjunction with the Corporation's combined financial statements.

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

The Corporation presents three basic financial statements: combined balance sheets; combined statements of revenues, expenses and changes in net assets; and combined statements of cash flows. These combined financial statements and related notes provide information about the activities of the Corporation.

The financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed on a given date (the end of the fiscal year). This information is reported on the combined balance sheets, which reflects the Corporation assets in relation to its debts to bondholders, suppliers, employees and other creditors. The excess of assets over liabilities is the equity, or net assets.

Information regarding the results of operations during the year is reported in the combined statements of revenues, expenses and changes in net assets. These statements show how much the overall net assets increased or decreased during the year as a result of operations and for other reasons (for example, contributions received).

The combined statements of cash flows show the flow of cash resources into and out of the Corporation during the year. It reflects all the cash flows received during the year (from operations, contributions, and other sources) and how those funds were used (for example, payment of expenses, repayment of debt, purchases of new property and equipment, and additions to our investment pool).

FINANCIAL HIGHLIGHTS

- The Corporation's net assets increased in 2010 by \$5.3 million primarily due to increased income from operations. Annual admissions increased by 55. Physician practice visits increased by 15,033 due to the employment of several local physicians. Inpatient surgeries increased by 175 surgeries. Outpatient surgeries increased by 134 surgeries. Laboratory procedures increased by 10,486 procedures. Radiology procedures decreased by 8,574 procedures. Pardee Urgent Care visits declined by 2,419 visits.
- Total operating revenues increased by \$2.9 million due to the increase in surgeries and the employment of physicians.
- Total operating expenses increased by \$5.3 million and are discussed in more detail on Page 5.
- Operating revenues exceeded expenses by \$4.1 million.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010 AND 2009**

FINANCIAL SUMMARY

**HENDERSON COUNTY HOSPITAL CORPORATION, INC.
SUMMARY COMBINED BALANCE SHEETS
SEPTEMBER 30, 2010, 2009 AND 2008**

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|------------------------------|------------------------------|------------------------------|
| ASSETS | | | |
| Current Assets | \$ 32,135,947 | \$ 37,336,829 | \$ 32,185,559 |
| Restricted Assets | 4,694,657 | 3,749,376 | 3,212,482 |
| Capital Assets, Net | 66,593,757 | 68,233,617 | 69,679,100 |
| Other Assets, Net | <u>53,133,010</u> | <u>43,542,735</u> | <u>39,308,063</u> |
| Total Assets | <u>\$ 156,557,371</u> | <u>\$ 152,862,557</u> | <u>\$ 144,385,204</u> |
| LIABILITIES | | | |
| Current Liabilities | \$ 17,220,040 | \$ 21,150,058 | \$ 19,320,525 |
| Long-Term Debt, Net of Current Portion | 12,485,348 | 10,736,986 | 11,374,636 |
| Obligations Under Capital Leases, Net of Current Portion | <u>1,898,398</u> | <u>1,321,278</u> | <u>1,998,894</u> |
| Total Liabilities | 31,603,786 | 33,208,322 | 32,694,055 |
| NET ASSETS | <u>124,953,585</u> | <u>119,654,235</u> | <u>111,691,149</u> |
| Total Liabilities and Net Assets | <u>\$ 156,557,371</u> | <u>\$ 152,862,557</u> | <u>\$ 144,385,204</u> |

Total net assets increased by \$5.3 million in 2010 and \$8.0 million in 2009 as detailed below:

September 30, 2010

Current assets decreased \$5.2 million in 2010 primarily from a decrease in cash of \$3.5 million and a decrease in accounts receivable of \$2.0 million. Capital assets declined by \$1.6 million in 2010, the net of new capital acquisitions totaling \$6.9 million offset by depreciation and amortization expense of \$8.5 million.

- Board-designated investments increased by \$9.5 million in 2010 to further fund the acquisition of new capital assets.
- Current liabilities decreased by \$3.9 million in 2010 due to decreases in accounts and contracts payable, accrued salaries, taxes and benefits, and estimated third-party payor settlement.
- The current ratio increased from 1.77 in 2009 to 1.87 in 2010.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010 AND 2009**

September 30, 2009

Current assets increased \$5.2 million in 2009 primarily from an increase in patient receivables of \$2.5 million and an increase in cash and cash equivalents of approximately \$3.1 million. Capital assets declined by \$1.4 million in 2009, the net of new capital acquisitions totaling \$8.5 million offset by depreciation and amortization expense of \$9.9 million.

- Board-designated investments increased by \$4.2 million in 2009 to further fund the acquisition of new capital assets.
- Current liabilities increased by \$1.8 million in 2009 due to increases in accounts and contracts payable, accrued salaries, taxes and benefits, and estimated third-party payor settlements.
- The current ratio increased from 1.67 in 2008 to 1.77 in 2009.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC.
SUMMARY COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2010, 2009 AND 2008**

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | | |
| Gross Patient Service Revenues | \$ 333,709,875 | \$ 318,682,050 | \$ 315,191,793 |
| Less Reductions to Revenue for: | | | |
| Charity Care | (3,609,044) | (3,033,443) | (3,432,288) |
| Provision for Bad Debts | (21,288,702) | (22,800,598) | (21,712,645) |
| Contractual and Other Adjustments | <u>(180,426,860)</u> | <u>(167,956,153)</u> | <u>(165,338,321)</u> |
| Net Patient Service Revenues | 128,385,269 | 124,891,856 | 124,708,539 |
| Other Operating Revenues | 3,637,491 | 4,211,957 | 5,721,324 |
| Total Operating Revenues | <u>132,022,760</u> | <u>129,103,813</u> | <u>130,429,863</u> |
| OPERATING EXPENSES | | | |
| Compensation, Benefits and Contracted Services | 80,396,353 | 76,280,034 | 79,424,479 |
| Supplies and Other Expenses | 39,005,728 | 36,425,608 | 37,056,014 |
| Depreciation and Amortization | 8,546,615 | 9,913,488 | 11,175,189 |
| Total Operating Expenses | <u>127,948,696</u> | <u>122,619,130</u> | <u>127,655,682</u> |
| OPERATING INCOME | 4,074,064 | 6,484,683 | 2,774,181 |
| NONOPERATING INCOME | <u>1,122,701</u> | <u>1,128,313</u> | <u>3,740,900</u> |
| EXCESS REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS | 5,196,765 | 7,612,996 | 6,515,081 |
| CAPITAL CONTRIBUTIONS | <u>102,585</u> | <u>350,090</u> | <u>8,137</u> |
| INCREASE IN NET ASSETS | 5,299,350 | 7,963,086 | 6,523,218 |
| Net Assets - Beginning of Year | <u>119,654,235</u> | <u>111,691,149</u> | <u>105,167,931</u> |
| NET ASSETS - END OF YEAR | <u>\$ 124,953,585</u> | <u>\$ 119,654,235</u> | <u>\$ 111,691,149</u> |

The combined statement of revenues, expenses and changes in net assets reflects a profit from operations for fiscal year 2010 of \$4.1 million as compared to a profit from operations of \$6.5 million in 2009, as detailed below:

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010 AND 2009**

Year Ended September 30, 2010

- Operating revenues increased by \$2.9 million, or 2.3%, over 2009 primarily due to increases in inpatient and other patient revenue.
- Other operating revenues decreased by \$0.6 million, or 14.2%, from 2009 due primarily to a reduction in contributions received by the Pardee Hospital Foundation.
- Operating expenses increased by \$5.3 million, or 4.3%, from 2009 due primarily to increased salaries and wages, employee benefits and supplies related to the purchase of new physician practices and increased billable supplies for orthopaedic services.
- Net non-operating income and expenses totaled \$1.1 million, consistent with 2009.

Year Ended September 30, 2009

- Operating revenues decreased by \$1.3 million, or 1.0%, over 2008 primarily due to the sale of Pardee Care Center in 2008 offset by increases in outpatient, emergency and other patient revenue.
- Other operating revenues decreased by \$1.5 million, or 26.2%, from 2008 due primarily to a reduction in contributions received by the Pardee Hospital Foundation.
- Operating expenses decreased by \$5.0 million, or 3.9%, from 2008 due primarily to the sale of Pardee Care Center which had expense in 2008 of \$7.3 million and was offset by increased salaries and wages, employee benefits and supplies related to the purchase of new physician practices and increased billable supplies for orthopaedic services. Depreciation and amortization decreased \$1.3 million due to the assets of Pardee Care Center being sold in fiscal year 2008.
- Net non-operating income and expenses totaled \$1.1 million, a decrease of \$2.6 million, or 69.8%, from 2008 due to the sale of Pardee Care Center offset by the investment gains in 2009 of \$1.4 million.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As of September 30, 2010, the Corporation had \$66.6 million invested in capital assets, net of accumulated depreciation and amortization, a decrease of \$1.6 million. Net expenditures for capital assets of \$6.9 million that occurred during 2010 were primarily related to purchase of information technology equipment, general up-fit, beds, renovation for placement of the new 64 slice CT and renovation of the orthopedic unit. Although buildings and certain properties are reported on the Pardee combined balance sheets, the real estate and certain other assets are owned by Henderson County and leased to the Corporation.

As of September 30, 2009, the Corporation had \$68.2 million invested in capital assets, net of accumulated depreciation and amortization, a decrease of \$1.4 million. Net expenditures for capital assets of \$8.5 million that occurred during 2009 were primarily related to purchase of physician practice buildings, medication safety, disaster recovery and beds. Although buildings and certain properties are reported on the Pardee combined balance sheets, the real estate and certain other assets are owned by Henderson County and leased to the Corporation.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010 AND 2009**

Long-Term Debt

The long-term debt consists of revenue bonds and obligations under capital lease. These debts are described in more detail in Note 8 to the combined financial statements.

During 2010, the Corporation issued a \$3.0 million tax-exempt bond for funding capital expenditures and entered into new capital lease agreements of \$1.3 million with Bank of America for IV Pumps, and \$0.5 million with GE Capital for radiology equipment.

During 2009, the Corporation paid its interest and principal as scheduled and did not enter into any new capital lease agreements.

ECONOMIC AND OTHER FACTORS

As one of the area's primary central health care providers, the Corporation is subject to a highly regulated environment and affected by a number of factors beyond Pardee's control. Any combination of these could impact the Corporation. Future concerns include: 1) an increasingly challenging reimbursement environment and overall economic uncertainty, 2) continued costs associated with new federal privacy laws and state directives, and 3) escalating health care supply costs, including pharmaceuticals and implants.

The majority of patients the Corporation cares for are insured by Medicare or Medicaid, both of which reimburse less than the costs of providing care to those patients. Collecting payments from third-party payors continues to be challenging and requires extensive staff time. Finally, over the last several years, Pardee's uninsured and underinsured payor mix has continued to grow, which has had a significant impact on Pardee's resources.

FINANCE CONTACT

The Corporation's financial statements are designed to present users with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer at Margaret R. Pardee Memorial Hospital, 800 North Justice Street, Hendersonville, NC 28791.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
COMBINED BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009**

| ASSETS | 2010 | 2009 |
|--|-----------------------|-----------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 5,394,983 | \$ 8,911,373 |
| Receivables: | | |
| Patient, Net of Allowance for Uncollectible Accounts of Approximately \$11,742,000 in 2010 and \$10,082,000 in 2009 | 21,541,010 | 23,584,042 |
| Other Receivables | 676,268 | 963,016 |
| Refundable Sales Taxes | 1,174,788 | 476,677 |
| Inventories | 2,487,618 | 2,353,312 |
| Prepaid Expenses | 861,280 | 1,014,261 |
| Restricted Cash and Cash Equivalents | - | 34,148 |
| Total Current Assets | 32,135,947 | 37,336,829 |
| RESTRICTED ASSETS | | |
| Investments | 4,358,262 | 3,506,421 |
| Pledges Receivable, Net | 336,395 | 242,955 |
| Total Restricted Assets | 4,694,657 | 3,749,376 |
| CAPITAL ASSETS, AT COST | | |
| Less: Accumulated Depreciation and Amortization | 193,680,038 | 186,848,261 |
| Capital Assets, Net | (127,086,281) | (118,614,644) |
| | 66,593,757 | 68,233,617 |
| OTHER ASSETS | | |
| Investments Designated by Board of Directors | 52,966,343 | 43,409,560 |
| Investment in Affiliate | 85,288 | 85,288 |
| Deferred Financing Costs, Net of Accumulated Amortization of Approximately \$20,000 in 2010 and \$13,000 in 2009 | 81,379 | 47,887 |
| Total Other Assets | 53,133,010 | 43,542,735 |
| Total Assets | \$ 156,557,371 | \$ 152,862,557 |

See accompanying Notes to Combined Financial Statements.

| | <u>2010</u> | <u>2009</u> |
|---|-----------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current Portion of Bonds Payable | \$ 1,263,988 | \$ 650,000 |
| Current Portion of Obligations Under Capital Leases | 884,150 | 677,115 |
| Accounts and Contracts Payable | 5,103,994 | 7,105,148 |
| Accrued Salaries, Taxes and Benefits | 7,305,804 | 8,568,326 |
| Deferred Revenue | 55,272 | 62,711 |
| Estimated Third-Party Payor Settlements | <u>2,606,832</u> | <u>4,086,758</u> |
| Total Current Liabilities | 17,220,040 | 21,150,058 |
| BONDS PAYABLE, NET OF CURRENT PORTION | 12,485,348 | 10,736,986 |
| OBLIGATIONS UNDER CAPITAL LEASES, NET OF | | |
| CURRENT PORTION | <u>1,898,398</u> | <u>1,321,278</u> |
| Total Liabilities | 31,603,786 | 33,208,322 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 50,061,873 | 54,848,238 |
| Restricted: | | |
| Debt Service | 1,224,298 | 885,891 |
| By Donor | 4,257,422 | 4,316,103 |
| Unrestricted | <u>69,409,992</u> | <u>59,604,003</u> |
| Total Net Assets | <u>124,953,585</u> | <u>119,654,235</u> |
| | | |
| Total Liabilities and Net Assets | <u>\$ 156,557,371</u> | <u>\$ 152,862,557</u> |

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|---|------------------------------|------------------------------|
| OPERATING REVENUES | | |
| Net Patient Service Revenues (Net of Provision for Bad Debts of Approximately \$21,289,000 in 2010 and \$22,801,000 in 2009) | \$ 128,385,269 | \$ 124,891,856 |
| Other Operating Revenues | <u>3,637,491</u> | <u>4,211,957</u> |
| Total Operating Revenues | <u>132,022,760</u> | <u>129,103,813</u> |
| OPERATING EXPENSES | | |
| Salaries and Wages | 54,324,198 | 51,871,945 |
| Employee Benefits | 15,653,220 | 14,098,649 |
| Supplies | 25,155,770 | 23,327,489 |
| Contract Labor | 1,082,185 | 1,081,904 |
| Physician Fees | 1,828,871 | 1,722,007 |
| Contracted Fees | 7,507,879 | 7,505,529 |
| Minor Equipment | 403,983 | 498,231 |
| Repairs and Maintenance | 4,803,033 | 4,651,712 |
| Insurance | 1,391,022 | 1,360,671 |
| Rent | 2,262,589 | 1,744,268 |
| Utilities | 2,695,266 | 2,524,139 |
| Depreciation and Amortization | 8,546,615 | 9,913,488 |
| Other | <u>2,294,065</u> | <u>2,319,098</u> |
| Total Operating Expenses | <u>127,948,696</u> | <u>122,619,130</u> |
| OPERATING INCOME | 4,074,064 | 6,484,683 |
| NONOPERATING INCOME (EXPENSE) | | |
| Investment Income | 1,364,930 | 1,376,372 |
| Interest Expense | (672,543) | (639,364) |
| Other Nonoperating Income | <u>430,314</u> | <u>391,305</u> |
| Net Nonoperating Income | <u>1,122,701</u> | <u>1,128,313</u> |
| EXCESS REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS | 5,196,765 | 7,612,996 |
| CAPITAL CONTRIBUTIONS | <u>102,585</u> | <u>350,090</u> |
| INCREASE IN NET ASSETS | 5,299,350 | 7,963,086 |
| Net Assets - Beginning of Year | <u>119,654,235</u> | <u>111,691,149</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 124,953,585</u></u> | <u><u>\$ 119,654,235</u></u> |

See accompanying Notes to Combined Financial Statements.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Patients and Third-Party Payors | \$ 128,948,375 | \$ 122,598,489 |
| Cash Paid to Employees | (71,239,940) | (65,303,019) |
| Cash Paid to Suppliers | (49,972,901) | (43,408,480) |
| Other Receipts from Operations | <u>1,622,735</u> | <u>1,825,628</u> |
| Net Cash Provided by Operating Activities | 9,358,269 | 15,712,618 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Other Nonoperating Gains | <u>430,314</u> | <u>391,305</u> |
| Net Cash Provided by Noncapital Financing Activities | 430,314 | 391,305 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Expenditures, Net | (5,053,701) | (8,082,704) |
| Payments of Deferred Financing Fees | (40,072) | - |
| Principal Payments on Long-Term Debt | (650,000) | (620,000) |
| Principal Payments on Obligations Under Capital Lease | (1,007,857) | (627,668) |
| Interest Paid | (646,382) | (545,789) |
| Proceeds from Issuance of Bond | 3,000,000 | - |
| Proceeds from Contributions Restricted for Capital Assets | <u>102,585</u> | <u>350,090</u> |
| Net Cash Used in Capital and Related Financing Activities | (4,295,427) | (9,526,071) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Income | (91,132) | 932,596 |
| Sale (Purchases) of Investments, Net | <u>19,676,961</u> | <u>(4,368,356)</u> |
| Net Cash Provided by (Used in) Investing Activities | 19,585,829 | (3,435,760) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 25,078,985 | 3,142,092 |
| Cash and Cash Equivalents - Beginning of Year | <u>8,945,521</u> | <u>5,803,429</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 34,024,506</u> | <u>\$ 8,945,521</u> |
| CLASSIFIED AS: | | |
| Current Assets | \$ 5,394,983 | \$ 8,911,373 |
| Investments Designated by Board of Directors | 28,629,523 | - |
| Restricted Current Assets | <u>-</u> | <u>34,148</u> |
| | <u>\$ 34,024,506</u> | <u>\$ 8,945,521</u> |

See accompanying Notes to Combined Financial Statements.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|----------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Income from Operations | \$ 4,074,064 | \$ 6,484,683 |
| Loss on Disposal of Property and Equipment | - | 33,818 |
| Provision for Bad Debts | 21,288,702 | 22,800,598 |
| Depreciation and Amortization | 8,546,615 | 9,913,488 |
| Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities: | | |
| Change in Assets and Liabilities: | | |
| Increase in Patient Receivables | (19,245,670) | (25,306,559) |
| (Increase) Decrease in Other Receivables | 286,748 | (95,304) |
| (Increase) Decrease in Refundable Sales Taxes | (698,111) | 553,439 |
| Increase in Inventories | (134,306) | (104,853) |
| Decrease in Prepaid Expenses | 152,981 | 143,501 |
| (Increase) Decrease in Pledges Receivable | (93,440) | 36,657 |
| Increase (Decrease) in Accounts and Contracts Payable | (2,069,427) | 378,726 |
| Increase (Decrease) in Accrued Salaries, Taxes and Benefits | (1,262,522) | 667,575 |
| Decrease in Deferred Revenue | (7,439) | (5,745) |
| Increase (Decrease) in Estimated Third-Party Payor Settlements | (1,479,926) | 212,594 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 9,358,269</u> | <u>\$ 15,712,618</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Accounts Payable Incurred for the Purchase of Equipment | <u>\$ 42,112</u> | <u>\$ 402,860</u> |
| Equipment Acquired Under Capital Lease Obligations | <u>\$ 1,792,012</u> | <u>\$ -</u> |
| Change in Unrealized Gains on Investments, Net | <u>\$ 1,456,062</u> | <u>\$ 443,776</u> |

See accompanying Notes to Combined Financial Statements.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Mission

On November 1, 1998, the Board of County Commissioners of Henderson County authorized the incorporation of Henderson County Hospital Corporation, Inc. (the "Corporation") and the transfer of all assets, except real property, and liabilities of Margaret R. Pardee Memorial Hospital to the Hospital Corporation. The County has assigned the exclusive use of the real property and certain equipment to the Hospital under a lease agreement for \$10 annually for a period of 25 years. If the lease is not renewed, the assignment terminates and the undepreciated residual value of the property reverts to the County. Henderson County is the sole member of Henderson County Hospital Corporation, Inc., d/b/a Margaret R. Pardee Memorial Hospital and Affiliates.

Henderson County Hospital Corporation is the sole member of Henderson County Urgent Care Centers, Inc. ("Urgent Care") and Western Carolina Medical Associates, Inc. ("WCMA"), affiliates of Margaret R. Pardee Memorial Hospital (the "Hospital"). Effective January 1, 2008, the operations and assets of WCMA were transferred to the Hospital and are being operated as a division of the Hospital. The WCMA corporate entity was not dissolved, but had no activities or assets at September 30, 2010 and 2009.

The Corporation is included as a discretely presented component unit in the basic financial statements of the County. Under the authority of the Board of County Commissioners of Henderson County, the Hospital is operated and maintained by the Corporation as a charitable, governmental, nonprofit community hospital system. The Hospital's mission is to provide health care services to the citizens of Henderson County through its facilities. The Hospital operates facilities that include 201 licensed acute care beds, 21 licensed psychiatric beds, a physicians' services group, a home health agency, an urgent care center and a variety of other community-based services.

The Board of Directors of the Corporation is selected by the Board of Commissioners of Henderson County. The Hospital Corporation is exempt from federal income taxes on related income pursuant to Section 115 of the Internal Revenue Code ("Code"). Prior to the reorganization mentioned above, the Hospital was a Section 501(c)(3) entity as defined by the Code and was exempt from income taxes pursuant to Section 501(a) of the Code.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reporting Entity and Mission (continued)

Pardee Memorial Hospital Foundation, Inc. (the "Foundation") was organized in 1996 as a nonprofit, nonstock corporation under the laws of the State of North Carolina. The Foundation was organized to exclusively benefit the Hospital and to strengthen and further, in every useful way, the work and services of the Hospital. The Foundation is presented as a blended component unit in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* as amended by GASB No. 39, *Determining Whether Certain Organizations are Component Units*. Complete financial statements for the component unit may be obtained at the Foundation's office at 800 N. Justice Street, Hendersonville, NC 28791.

Principles of Combination

The combined financial statements of Henderson County Hospital Corporation, Inc. include the accounts of Margaret R. Pardee Memorial Hospital, Henderson County Urgent Care Center, Inc. and Pardee Memorial Hospital Foundation, Inc. All significant intercompany amounts and transactions have been eliminated.

Use of Estimates

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

Basis of Accounting

The accompanying combined financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as recommended in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*, and other pronouncements applicable to health care organizations.

Pursuant to GASB Statement No. 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, except for those that conflict with or contradict GASB pronouncements.

Charity Care

The Hospital has a charity care policy whereby care to patients meeting certain established criteria is without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cash and Cash Equivalents

The Corporation considers investments purchased with an original maturity of three months or less to be cash equivalents. The Hospital's investment in the North Carolina Capital Management Trust is not considered a cash equivalent.

Patient Receivables, Net

The Hospital provides an allowance for uncollectible accounts using historical collection experience and a review of the current status of existing receivables. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts are analyzed for collectibility. Amounts for which no payments have been received for 120 days are fully reserved and turned over to a collection agency for continued collection efforts. At September 30, 2010 and 2009, the allowance for uncollectible accounts was approximately \$11,742,000 and \$10,082,000, respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Pledges Receivable

Pledges are recognized when the donor makes a pledge to give to the Foundation. Contributions that are restricted by the donor are reported as restricted net assets. Pledges are recorded after discounting to the present value of the future cash flows. The Foundation uses the allowance method to determine uncollectible pledges. The allowance is based on prior years' experience and management's analysis of specific pledges made.

Other Receivables

Other receivables consist primarily of physician loans. An allowance for physician receivables has been recorded to reflect physician receivables at their estimated net realizable values.

Capital Assets

Capital assets are stated at cost, including interest costs incurred during construction. Depreciation is computed using the straight-line method using the AHA (American Hospital Association) estimated useful life guidelines for the related assets. Routine maintenance and repairs are charged to expense. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Equipment under capital lease obligations is generally amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the related equipment. Such amortization is included in depreciation and amortization in the combined financial statements.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Restricted Assets

Restricted assets include assets that are subject to donor-imposed stipulations and assets held by the bond trustee under the indenture agreement.

Costs of Borrowing

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

Bond issue costs are deferred and amortized over the period the bonds are outstanding.

Investments

Investments are carried at fair value. Realized and unrealized gains and losses, based on the specific identification method, are included in nonoperating income (expense). Interest on investments is included in nonoperating income when earned.

Other investment consists of the Hospital's investment in a group purchasing company and is stated at cost.

Impairment Losses

Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Corporation has evaluated the carrying values of its long-lived assets and has determined that no writedowns for impairment are necessary as of September 30, 2010 or 2009.

Net Assets

Net assets are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are imposed by creditors, contributors, or laws or regulations of governments.

Compensated Absences

The paid time off policy of the Corporation provides for the accumulation of up to 480 hours and 520 hours earned leave as of September 30, 2010 and September 30, 2009, respectively, with such leave being fully vested when earned for associates hired prior to October 1, 2007. Associates hired on or after October 1, 2007 may accumulate up to 400 hours earned leave with such being vested when earned at 100% after 90 days employment. An expense and a liability for paid time off are recorded as the leave is earned. The provision for earned paid time off not yet used is included in accrued salaries, taxes and benefits in the combined balance sheets.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts, including an allowance for doubtful accounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as settlements are determined.

Grants and Contributions

From time to time, the Foundation receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as other operating revenues since the operating expenses related to these revenues may not have been incurred if the grants had not been received. Amounts restricted to capital acquisitions are reported after excess revenues over expenses.

Restricted Resources

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

Operating Revenues and Expenses

The Corporation's statements of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from the providing of health care services – the Corporation's principal activity.

Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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NOTE 2 DEPOSITS

All deposits of the Hospital are made in Board-approved official depositories and are secured as required by North Carolina General Statute ("G. S.") 159-31. The Hospital may designate, as an official depository, any bank or savings and loan whose principal office is located in North Carolina. Also, the Hospital may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the Hospital's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the Hospital's agent in the Hospital's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Hospital these deposits are considered to be held by the Hospital's agent in the Hospital's name. The amount of the pledged collateral is based on approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

At September 30, 2010, the Corporation's deposits had a carrying amount of approximately \$5,395,000 and a bank balance of approximately \$6,668,000. Of the bank balance, approximately \$1,190,000 was covered by federal depository insurance and \$5,478,000 was covered by collateral held under the Pooling Method.

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable for the Foundation at September 30, 2010 and 2009 are as follows:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|-------------------|-------------------|
| Due in One Year or Less | \$ 340,029 | \$ 248,855 |
| Less Allowance for Doubtful Pledges | <u>(3,634)</u> | <u>(5,900)</u> |
| | <u>\$ 336,395</u> | <u>\$ 242,955</u> |

Pledges which are due in greater than 12 months, if any, are recorded after discounting to the present value of expected future cash flows, using the current federal lending rate at the time of the pledge.

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NOTE 4 INVESTMENTS

The Corporation had the following investments, including accrued interest receivable, as of September 30, 2010 and 2009:

| | 2010 | | |
|--------------------------------|----------------------|----------------------------------|----------------------|
| | Cost | Net Unrealized Gains (Losses) | Fair Value |
| The Hospital: | | | |
| U.S. Government Securities | \$ 589,110 | \$ 8,993 | \$ 598,103 |
| U.S. Government Agencies | 14,870,145 | 303,157 | 15,173,302 |
| NC Capital Management Trust | 4,515 | - | 4,515 |
| Equity Securities and Funds | 6,418,884 | (658,916) | 5,759,968 |
| Cash and Cash Equivalents | 28,629,523 | - | 28,629,523 |
| | <u>50,512,177</u> | <u>(346,766)</u> | <u>50,165,411</u> |
| The Foundation: | | | |
| Equity Securities and Funds | 6,244,577 | 401,797 | 6,646,374 |
| Other Investments: | | | |
| Multi-Asset Investment Holding | 85,651 | (1,667) | 83,984 |
| Real Estate Investment Trust | 85,188 | (5,956) | 79,232 |
| Energy Exchange Traded Fund | 84,945 | 11,856 | 96,801 |
| Utility Exchange Traded Fund | 93,673 | 7,684 | 101,357 |
| Small Cap Exchange Traded Fund | 123,735 | 24,235 | 147,970 |
| Money Market Funds | 3,476 | - | 3,476 |
| | <u>6,721,245</u> | <u>437,949</u> | <u>7,159,194</u> |
| | <u>\$ 57,233,422</u> | <u>\$ 91,183</u> | <u>\$ 57,324,605</u> |
| | | | |
| | 2009 | | |
| | Cost | Net Unrealized Gains (Losses) | Fair Value |
| The Hospital: | | | |
| U.S. Government Securities | \$ 619,180 | \$ 30,340 | \$ 649,520 |
| U.S. Government Agencies | 15,261,126 | 319,037 | 15,580,163 |
| NC Capital Management Trust | 20,072,905 | - | 20,072,905 |
| Equity Securities and Funds | 5,728,130 | (1,350,527) | 4,377,603 |
| | <u>41,681,341</u> | <u>(1,001,150)</u> | <u>40,680,191</u> |
| The Foundation: | | | |
| Equity Securities and Funds | 5,843,797 | (363,729) | 5,480,068 |
| Certificates of Deposit | 755,722 | - | 755,722 |
| | <u>6,599,519</u> | <u>(363,729)</u> | <u>6,235,790</u> |
| | <u>\$ 48,280,860</u> | <u>\$ (1,364,879)</u> | <u>\$ 46,915,981</u> |

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NOTE 4 INVESTMENTS (CONTINUED)

Investments had the following maturities as of September 30:

| | 2010 | | | | |
|--------------------------------|----------------------|---------------------|---------------------|-------------------------|----------------------|
| | Fair Value | Less than 1 Year | 2-3 Years | Greater than 4 Years | No Maturity Date |
| The Hospital: | | | | | |
| U.S. Government Securities | \$ 598,103 | \$ 89,218 | \$ 508,885 | \$ - | \$ - |
| U.S. Government Agencies | 15,173,302 | 2,057,500 | 4,440,923 | 8,674,879 | - |
| NC Capital Management Trust | 4,515 | - | - | - | 4,515 |
| Equity Securities and Funds | 5,759,968 | - | - | - | 5,759,968 |
| Cash and Cash Equivalents | 28,629,523 | - | - | - | 28,629,523 |
| | <u>50,165,411</u> | <u>2,146,718</u> | <u>4,949,808</u> | <u>8,674,879</u> | <u>34,394,006</u> |
| The Foundation: | | | | | |
| Equity Securities and Funds | 6,646,374 | 6,646,374 | - | - | - |
| Other Investments: | | | | | |
| Multi-Asset Investment Holding | 83,984 | - | - | - | 83,984 |
| Real Estate Investment Trust | 79,232 | - | - | - | 79,232 |
| Energy Exchange Traded Fund | 96,801 | - | - | - | 96,801 |
| Utility Exchange Traded Fund | 101,357 | - | - | - | 101,357 |
| Small Cap Exchange Traded Fund | 147,970 | - | - | - | 147,970 |
| Money Market Funds | 3,476 | 3,476 | - | - | - |
| | <u>7,159,194</u> | <u>6,649,850</u> | <u>-</u> | <u>-</u> | <u>509,344</u> |
| | <u>\$ 57,324,605</u> | <u>\$ 8,796,568</u> | <u>\$ 4,949,808</u> | <u>\$ 8,674,879</u> | <u>\$ 34,903,350</u> |
| 2009 | | | | | |
| | Fair Value | Less than 1 Year | 2-3 Years | Greater than 4 Years | No Maturity Date |
| The Hospital: | | | | | |
| U.S. Government Securities | \$ 649,520 | \$ 119,385 | \$ 530,135 | \$ - | \$ - |
| U.S. Government Agencies | 15,580,163 | 1,530,465 | 6,042,262 | 8,007,436 | - |
| NC Capital Management Trust | 20,072,905 | - | - | - | 20,072,905 |
| Equity Securities and Funds | 4,377,603 | - | - | - | 4,377,603 |
| | <u>40,680,191</u> | <u>1,649,850</u> | <u>6,572,397</u> | <u>8,007,436</u> | <u>24,450,508</u> |
| The Foundation: | | | | | |
| Equity Securities and Funds | 5,480,068 | 5,480,068 | - | - | - |
| Certificate of Deposit | 755,722 | 755,722 | - | - | - |
| | <u>6,235,790</u> | <u>6,235,790</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 46,915,981</u> | <u>\$ 7,885,640</u> | <u>\$ 6,572,397</u> | <u>\$ 8,007,436</u> | <u>\$ 24,450,508</u> |

Investment income is composed of the following for the years ended September 30:

| | 2010 | 2009 |
|--------------------------------|---------------------|---------------------|
| The Hospital: | | |
| Interest and Dividends | \$ 144,361 | \$ 817,033 |
| Unrealized Gains (Losses), Net | 654,384 | 317,368 |
| | <u>798,745</u> | <u>1,134,401</u> |
| The Foundation: | | |
| Interest and Dividends | 209,771 | 213,172 |
| Realized Gains (Losses), Net | (445,264) | (97,609) |
| Unrealized Gains (Losses), Net | 801,678 | 126,408 |
| | <u>566,185</u> | <u>241,971</u> |
| | <u>\$ 1,364,930</u> | <u>\$ 1,376,372</u> |

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NOTE 4 INVESTMENTS (CONTINUED)

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy requires purchases of all securities with a final maturity date longer than 12 months to be approved by the Hospital's Board of Directors.

Custodial Risk. The Hospital manages its custodial credit risk by ensuring its deposits are either insured or collateralized (See Note 2).

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs). The Hospital manages credit risk through quarterly reviews of the portfolio by the Finance Committee of the Corporation's Board of Directors and limits the credit risk of investments through its investment policy. The Hospital's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of September 30, 2010. The Hospital's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and also in high-grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. During the year ended September 30, 2007, the Hospital began investing in common and preferred stocks through the North Carolina Department of State Treasurer's Public Equity portfolio, as permitted by North Carolina General Statute 147-69.2(b)(8). The Hospital's investments in U.S. Government Agencies (Fannie Mae) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

The Foundation invests in a combination of stocks, fixed income securities, money market funds and other investment securities. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the Foundation's investment balance reported in the statements of financial position.

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NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2010 and 2009 was as follows:

| | Balance October 1, 2009 | Increases | Decreases | Transfers | Balance September 30, 2010 |
|---|-------------------------------|-----------------------|--------------------|-------------|----------------------------------|
| Non-depreciable assets: | | | | | |
| Land | \$ 4,900,727 | \$ - | \$ - | \$ - | \$ 4,900,727 |
| Construction in progress | 815,312 | 3,077,444 | - | (3,445,125) | 447,631 |
| Depreciable assets: | | | | | |
| Land improvements | 1,044,152 | 15,052 | - | 21,431 | 1,080,635 |
| Buildings and fixed equipment | 89,029,999 | 2,250 | - | 1,627,338 | 90,659,587 |
| Movable equipment | 91,058,071 | 3,805,429 | (68,398) | 1,796,356 | 96,591,458 |
| Totals at historical cost | <u>186,848,261</u> | <u>6,900,175</u> | <u>(68,398)</u> | <u>-</u> | <u>193,680,038</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 930,947 | 27,560 | - | - | 958,507 |
| Buildings and fixed equipment | 43,441,972 | 3,426,854 | - | - | 46,868,826 |
| Movable equipment | 74,241,725 | 5,085,621 | (68,398) | - | 79,258,948 |
| Total accumulated depreciation | <u>118,614,644</u> | <u>8,540,035</u> | <u>(68,398)</u> | <u>-</u> | <u>127,086,281</u> |
| Capital assets, net | <u>\$ 68,233,617</u> | <u>\$ (1,639,860)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 66,593,757</u> |
| | | | | | |
| | Balance October 1, 2008 | Increases | Decreases | Transfers | Balance September 30, 2009 |
| Non-depreciable assets: | | | | | |
| Land | \$ 3,908,862 | \$ 991,865 | \$ - | \$ - | \$ 4,900,727 |
| Construction in progress | 1,200,863 | 2,254,327 | - | (2,639,878) | 815,312 |
| Depreciable assets: | | | | | |
| Land improvements | 1,036,844 | 7,308 | - | - | 1,044,152 |
| Buildings and fixed equipment | 86,758,299 | 2,010,412 | - | 261,288 | 89,029,999 |
| Movable equipment | 85,922,521 | 3,237,911 | (480,951) | 2,378,590 | 91,058,071 |
| Totals at historical cost | <u>178,827,389</u> | <u>8,501,823</u> | <u>(480,951)</u> | <u>-</u> | <u>186,848,261</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 904,226 | 26,721 | - | - | 930,947 |
| Buildings and fixed equipment | 39,972,451 | 3,469,521 | - | - | 43,441,972 |
| Movable equipment | 68,271,612 | 6,417,246 | (447,133) | - | 74,241,725 |
| Total accumulated depreciation | <u>109,148,289</u> | <u>9,913,488</u> | <u>(447,133)</u> | <u>-</u> | <u>118,614,644</u> |
| Capital assets, net | <u>\$ 69,679,100</u> | <u>\$ (1,411,665)</u> | <u>\$ (33,818)</u> | <u>\$ -</u> | <u>\$ 68,233,617</u> |

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NOTE 6 AGREEMENTS WITH THIRD-PARTY PAYORS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the significant payment arrangements with major third-party payors follows:

Medicare/Medicaid – Inpatient acute care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services and certain outpatient services of Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Medicare outpatient and home health services are reimbursed on a prospective payment system based on clinical and diagnostic factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary.

The Hospital's Medicare cost reports have been final audited by the Medicare fiscal intermediaries through 2006 and tentatively settled through 2007. The Hospital's Medicaid cost reports have been final audited by the Medicaid fiscal intermediaries through 2006 and tentatively settled through 2007 and 2008.

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

Gross revenues are reduced by the following adjustments to arrive at net patient service revenues for the years ended September 30, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|-----------------------|-----------------------|
| Contractual Adjustments and Other | \$ 180,426,860 | \$ 167,956,153 |
| Provision for Bad Debts | 21,288,702 | 22,800,598 |
| Charity Care | <u>3,609,044</u> | <u>3,033,443</u> |
| | <u>\$ 205,324,606</u> | <u>\$ 193,790,194</u> |

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NOTE 6 AGREEMENTS WITH THIRD-PARTY PAYORS (CONTINUED)

Because the Hospital services a disproportionate share of low income patients with special needs, it has historically received additional Medicaid reimbursement payments under the State of North Carolina's "Medicaid Reimbursement Initiative" (the "Program"). The Hospital recognized in net patient revenue approximately \$3,677,000 and \$3,013,000 during the years ended September 30, 2010 and 2009, respectively. During 2010, the State of North Carolina provided additional information related to the operation of the Program. With this new information, the Hospital updated its revenue recognition policy related to the Program and now recognizes all funds from the Program as net patient service revenue when received.

In addition, proposed regulations by the Centers for Medicare and Medicaid Services published in the Federal Register could have resulted in the elimination of the Program effective September 1, 2007; however, Congress approved in 2009 and 2008, moratoriums that postponed any regulations which could have resulted in the elimination of the Program, the latest of which had an expiration date of April 1, 2009. The American Recovery and Reinvestment Tax Act of 2009, passed by Congress in February 2009, states that it is the sense of Congress that the Secretary of Health and Human Services should not promulgate as final, regulations published in the Federal Register as described above. Management is uncertain how this directive will affect the future of the Program. Accordingly, any future payments beyond September 30, 2010 are uncertain.

Program funds received and deferred during the years ended September 30, 2010 and 2009 are as follows:

| <u>Program Year</u> | <u>Amount Received</u> | <u>Deferred at September 30,</u> | |
|---------------------------------------|----------------------------|----------------------------------|---------------------|
| | | <u>2010</u> | <u>2009</u> |
| 2004 | \$ 1,680,441 | \$ - | \$ 90,744 |
| 2005 | 1,736,521 | - | 94,945 |
| 2006 | 1,998,926 | - | 399,785 |
| 2006 Settlement Payment (1997 - 2002) | (634,543) | - | - |
| 2007 | 2,848,400 | 100,000 | 569,680 |
| 2008 | 2,795,979 | - | 558,982 |
| 2008 Settlement Payment (2003) | (1,091) | - | - |
| 2009 | 3,766,243 | - | 753,463 |
| 2010 | 3,676,532 | - | - |
| | <u>\$ 17,867,408</u> | <u>\$ 100,000</u> | <u>\$ 2,467,599</u> |

For the years ended September 30, 2010 and 2009, net patient revenue increased approximately \$3,062,000 and \$670,000, respectively, as a result of changes in various estimated third-party accruals and reserves.

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NOTE 6 AGREEMENTS WITH THIRD-PARTY PAYORS (CONTINUED)

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations; however, the possibility for future governmental review and interpretation exists.

NOTE 7 CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Corporation to concentrations of credit risk, in addition to demand deposits and investments, are primarily patient accounts receivable and pledges receivable. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at September 30, 2010 and 2009 was as follows:

| | <u>2010</u> | <u>2009</u> |
|--------------------------|--------------|--------------|
| Medicare | 43 % | 44 % |
| Medicaid | 8 | 9 |
| Other Third-Party Payors | 21 | 24 |
| Patients | 28 | 23 |
| Total | <u>100 %</u> | <u>100 %</u> |

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NOTE 8 LONG-TERM DEBT

Bonds Payable

A summary of bonds payable at September 30, 2010 and 2009 follows:

| | 2010 | 2009 |
|---|---------------|---------------|
| County of Henderson, North Carolina, Hospital Revenue Refunding Bond (Margaret R. Pardee Memorial Hospital Project), Series 2008, Interest Payable Monthly at 4.09% through 2022. | \$ 10,885,000 | \$ 11,535,000 |
| County of Henderson, North Carolina, Hospital Revenue Bond (Margaret R. Pardee Memorial Hospital Project), Series 2010, Interest Payable Monthly at 2.93% through 2015. | 3,000,000 | - |
| | 13,885,000 | 11,535,000 |
| Less: Unamortized Deferred Loss on Refunding | (135,664) | (148,014) |
| Less: Current Portion of Bonds Payable | (1,263,988) | (650,000) |
| Bonds Payable, Net of Current Portion | \$ 12,485,348 | \$ 10,736,986 |

The following is a summary of changes in the Corporation's long-term (bonds payable and obligations under capital leases) debt for the years ended September 30, 2010 and 2009:

| | Balance October 1, 2009 | Additions | Retirements | Balance September 30, 2010 | Amounts Due Within One Year |
|---|-------------------------------|--------------|----------------|----------------------------------|-----------------------------------|
| Series 2008 Bond | \$ 11,535,000 | \$ - | \$ (650,000) | \$ 10,885,000 | \$ 685,000 |
| Series 2010 Bond | - | 3,000,000 | - | 3,000,000 | 578,988 |
| Obligations Under Capital Leases | 1,998,393 | 1,792,012 | (1,007,857) | 2,782,548 | 884,150 |
| | 13,533,393 | 4,792,012 | (1,657,857) | 16,667,548 | 2,148,138 |
| Less Unamortized Deferred Loss on Refunding | (148,014) | - | 12,350 | (135,664) | - |
| | \$ 13,385,379 | \$ 4,792,012 | \$ (1,645,507) | \$ 16,531,884 | \$ 2,148,138 |
| | Balance October 1, 2008 | Additions | Retirements | Balance September 30, 2009 | Amounts Due Within One Year |
| Series 2008 Bond | \$ 12,155,000 | \$ - | \$ (620,000) | \$ 11,535,000 | \$ 650,000 |
| Obligations Under Capital Leases | 2,626,061 | - | (627,668) | 1,998,393 | 677,115 |
| | 14,781,061 | - | (1,277,668) | 13,503,393 | 1,327,115 |
| Less Unamortized Deferred Loss on Refunding | (160,364) | - | 12,350 | (148,014) | - |
| | \$ 14,620,697 | \$ - | \$ (1,277,668) | \$ 13,343,029 | \$ 1,327,115 |

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NOTE 8 LONG-TERM DEBT (CONTINUED)

On September 20, 2001, the Corporation issued \$15,300,000 Series 2001 Bonds. The proceeds of the Series 2001 Bonds were used for the purpose of financing all or a portion of the costs of (1) expanding the emergency room facilities of the Hospital, (2) the construction of a new parking deck at the Hospital, (3) the construction of a medical office building for the Hospital, and (4) the payment of expenses incurred in connection with the issuance of the Series 2001 Bonds.

On June 1, 2008, the Corporation refunded its Series 2001 Bonds using proceeds from the issuance of a Series 2008 Bond. The terms of the reimbursement agreement and master trust indenture for the 2008 Hospital Revenue Refunding Bond requires that the Corporation comply with various covenants, the most restrictive of which requires the Corporation to maintain minimum debt service coverage and liquidity ratios. The Hospital's 2008 Revenue Refunding Bond is payable solely from the pledged net revenues and funds held by the bond trustees under the bond indenture.

On June 1, 2010, the Corporation issued a \$3,000,000 Series 2010 Bond. The proceeds of the Series 2010 Bond were used for the purpose of financing fiscal year 2010 capital expenditures.

Future minimum principal and interest payments under the Series 2008 Bond and Series 2010 Bond consist of the following at September 30, 2010:

| <u>Year Ending September 30.</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|----------------------|---------------------|
| 2011 | \$ 1,263,988 | \$ 631,224 |
| 2012 | 1,299,105 | 558,822 |
| 2013 | 1,351,198 | 462,054 |
| 2014 | 1,403,796 | 384,267 |
| 2015 | 1,461,913 | 321,454 |
| 2016-2020 | 4,820,000 | 932,418 |
| 2021-2022 | 2,285,000 | 141,310 |
| | <u>\$ 13,885,000</u> | <u>\$ 3,431,549</u> |

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NOTE 8 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Leases

The Hospital leases certain medical equipment under capital lease obligations. Future minimum lease payments under these leases at September 30, 2010 are as follows:

| <u>Year Ending September 30,</u> | <u>Amount</u> |
|--|---------------------|
| 2011 | \$ 997,197 |
| 2012 | 907,696 |
| 2013 | 741,918 |
| 2014 | <u>410,362</u> |
| Total Future Minimum Lease Payments | 3,057,173 |
| Less: Amounts Representing Interest | <u>(274,625)</u> |
| | 2,782,548 |
| Less: Current Portion | <u>(884,150)</u> |
| Obligations Under Capital Leases, Net of Current Portion | <u>\$ 1,898,398</u> |

At September 30, 2010 the cost of assets held under capital lease obligations was approximately \$13,934,000, less accumulated depreciation and amortization of approximately \$7,954,000.

NOTE 9 OPERATING LEASES

At September 30, 2010, minimum future rental commitments under noncancellable operating leases of twelve months or longer are as follows:

| <u>Year Ending September 30,</u> | |
|----------------------------------|---------------------|
| 2010 | \$ 1,713,779 |
| 2011 | 1,516,462 |
| 2012 | 1,178,657 |
| 2013 | 966,704 |
| 2014 | 390,609 |
| Thereafter | <u>179,214</u> |
| | <u>\$ 5,945,425</u> |

Rent expense under operating leases approximated \$2,263,000 and \$1,744,000 for the years ended September 30, 2010 and 2009, respectively.

The Hospital subleases real property under a noncancelable lease agreement to unrelated parties. The lease expires January 31, 2011 and contains a renewal option. Rental income under the sublease agreement amounted to approximately \$22,000 and \$22,000 during the years ended September 30, 2010 and 2009, respectively. The monthly rental amount is \$1,888 at September 30, 2010.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

NOTE 10 RETIREMENT PLANS

The Corporation has a defined contribution plan in which employees are eligible to participate when they complete 1,000 hours of service, attain age 21, and have been employed at least one year. The plan provides for the Corporation base contributions, ranging from 3% to 9% of employee compensation based upon age and length of employment. The plan also provides for the Corporation matching contributions of 50% of employee deferrals to the deferred compensation plan up to 6% of employee compensation. Contributions are invested in participant-directed investment fund options. Contributions to the defined contribution plan amounted to approximately \$2,428,000 and \$2,315,000 during the years ended September 30, 2010 and 2009, respectively.

The Corporation offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by an unrelated insurance company under the direction of the Corporation. The plan, available to all Corporation employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death or financial hardship.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Corporation is subject to legal proceedings and claims that arise in the ordinary course of providing health care services. The Hospital is covered under a claims-made policy for the purpose of providing professional and patient care liability insurance. The limit of coverage during 2010 was \$1,000,000 per incident with a \$3,000,000 annual aggregate. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits and unasserted claims not covered by the policy and any other uninsured liability.

NOTE 12 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and emissions; injuries to employees; natural disasters; and medical malpractice. The Corporation carries commercial insurance for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Also, the Hospital's employee health insurance program is self-insured with stop-loss coverage provided by a commercial insurance company. The following is a summary of changes in the self-insured health claims liability for the years ended September 30, 2010 and 2009, which is included in accounts and contracts payable in the combined balance sheets:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Claims liability at beginning of year | \$ 1,257,352 | \$ 1,192,105 |
| Incurred claims and incurred but not reported claims | 10,555,774 | 9,169,624 |
| Claims paid | <u>(10,526,274)</u> | <u>(9,104,377)</u> |
| Claims liability at end of year | <u>\$ 1,286,852</u> | <u>\$ 1,257,352</u> |

Beginning January 1, 2006, the Corporation's workers' compensation insurance coverage changed and the deductible increased from \$250,000 per claim to \$350,000. The Corporation has third-party insurance coverage for any losses in excess of this per claim amount. The third-party workers' compensation policies in effect for claims arising before January 1, 2010 have a maximum aggregate amount of \$1,900,000. Claims arising January 1, 2010 or thereafter are subject to a policy maximum aggregate amount of \$1,000,000. In addition, the Corporation has letters of credit as collateral for the workers' compensation insurance policies of \$869,000 prior to January 1, 2010 and of \$969,000 effective January 1, 2010 through remainder of the 2010 calendar year. The Corporation accrued reserves for unpaid claims amounting to approximately \$79,000 and \$33,000 at September 30, 2010 and 2009, respectively, which is included in accounts and contracts payable in the combined balance sheets.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

NOTE 12 RISK MANAGEMENT (CONTINUED)

The Hospital purchases malpractice insurance coverage on a claims-made basis from a commercial insurance company. The limit for claims paid applicable to the Hospital's coverage is \$1,000,000 for any one claim and \$3,000,000 for all claims annually. The annual aggregate limit for claims paid applicable to the Hospital's excess liability coverage is \$9,000,000 that can be applied toward any one claim or total claims that exceed the primary coverage limits. The Hospital has recorded a reserve for estimated deductibles under its malpractice insurance for the years ended September 30, 2010 and 2009, amounting to approximately \$110,000 and \$445,000, respectively, which is included in accounts and contracts payable in the combined balance sheets.

NOTE 13 BOARD DESIGNATED ASSETS

It is the Hospital's policy to fund depreciation to the extent funds are available. At September 30, 2010 and 2009, investments totaling approximately \$48,941,000 and \$39,794,000, respectively, were designated by the Hospital's Board of Directors for future replacement and expansion under this policy. At September 30, 2010 and 2009, investments totaling approximately \$4,025,000 and \$3,615,000, respectively, were also designated as quasi-endowment funds by the Foundation Board of Directors. Such investments are included in noncurrent assets.

NOTE 14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents

The carrying amount reported in the combined balance sheets for cash and cash equivalents approximates fair value.

Investments

These assets consist primarily of cash equivalents, The North Carolina Department of State Treasurers Public Equity portfolio, U.S. government securities and interest receivable. The carrying amounts approximate their fair values.

Accounts and Contracts Payable

The carrying amount reported in the combined balance sheets for accounts and contracts payable approximates fair value.

Third-Party Settlements Payable

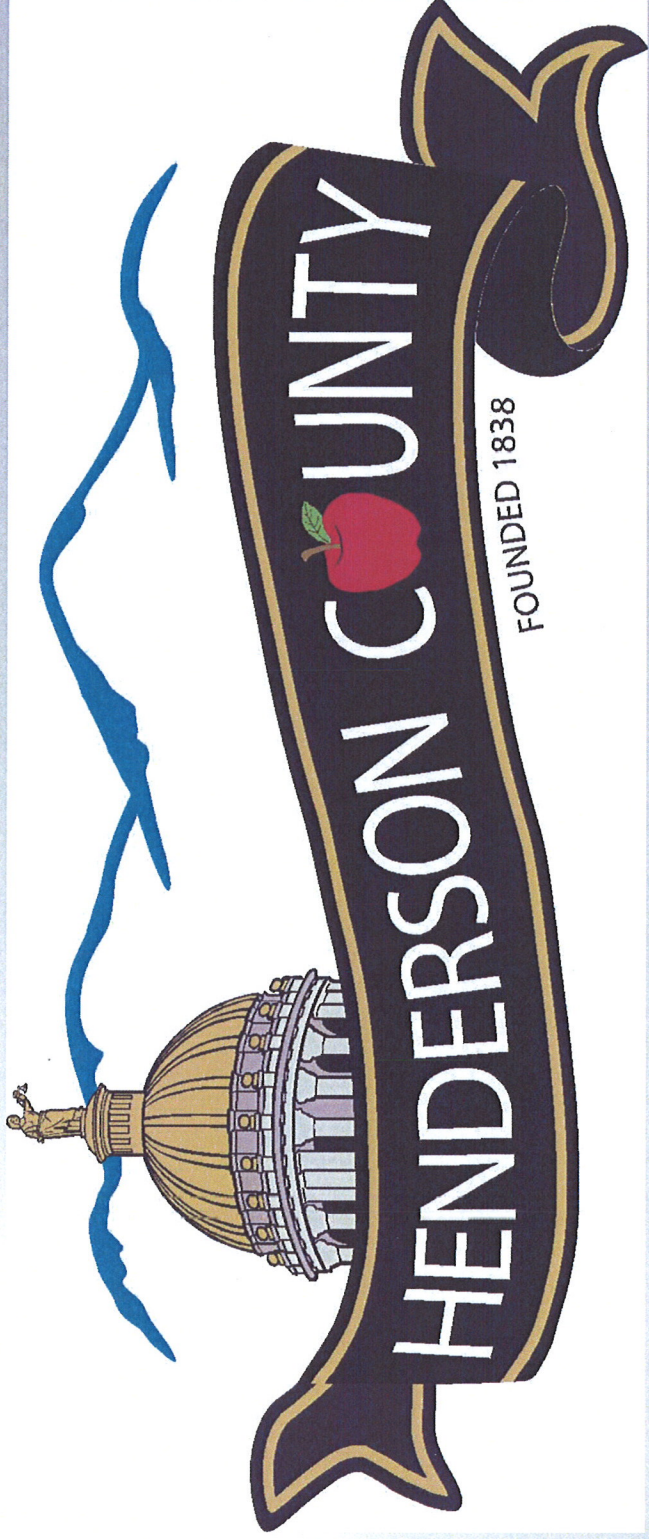
The carrying amount reported in the combined balance sheets for estimated third-party payor settlements approximates fair value.

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Highlight Statistics

| | FY 2010 Actual | FY 2009 Actual |
|--|-------------------|-------------------|
| Patients Served | | |
| Average Daily Inpatient Census | 86.1 | 86.6 |
| Observation and Extended Recovery | 7.1 | 9.3 |
| Psychiatric Census | 14.5 | 15.1 |
| Acute Total | 71.6 | 71.5 |
| Total Inpatient Days | 31,429 | 31,591 |
| Total Discharges (Acute + MCH +MHU) | 7,855 | 7,793 |
| Total Admits | 7,862 | 7,807 |
| Births | 364 | 402 |
| Emergency Visits | 32,209 | 32,225 |
| Outpatient Visits | 97,366 | 168,391 |
| Surgery Cases - Inpatient | 2,192 | 1,924 |
| Surgery Cases - Outpatient | 5,285 | 4,979 |
| Endo/Cysto/Litho Cases | 2,785 | 3,687 |
| Total Operative Suite Cases | 9,988 | 10,590 |
| Radiology Procedures (total) | 86,462 | 95,036 |
| Laboratory Procedures (total) | 403,023 | 398,518 |
| Urgent Care Visits - Hendersonville | 23,537 | 25,956 |
| Total Paid FTE's | 1,061 | 1,043 |
| Hospital FTE's per adjusted occupied bed (w/o Home Health) | 4.72 | 4.48 |
| Statistical Analysis | | |
| Average length of stay for adult inpatients discharged | 4.0 | 4.1 |
| Case Mix Index - Medicare | 1.43 | 1.39 |
| Case Mix Index - All Discharged Patients | 1.25 | 1.21 |
| Average cost per adjusted patient day | \$1,728.76 | \$1,584.04 |
| Percentage occupancy staffed beds | 50.95% | 51.21% |

Henderson County Hospital Corporation
d/b/a Margaret R. Pardee Memorial Hospital
Liens and Indebtedness

| | <u>Principal</u> | <u>Balance 9/30/09</u> | <u>Balance 9/30/10</u> |
|--|------------------|----------------------------|----------------------------|
| Hospital Revenue Refunding Bond On June 1, 2008, HCHC refunded its Series 2001 Hospital Revenue Bonds using the proceeds of a Series 2008 Hospital Revenue Refunding Bond. Interest on the Series 2001 Bonds was variable and interest on the Series 2008 Bond is fixed at 4.09% through 2022. This is the same maturity date as the Series 2001 Bonds. | \$ 15,300,000 | \$ 11,535,000 | \$ 10,885,000 |
| Hospital Revenue Refunding Bond Issued June, 2010 | | | \$ 3,000,000 |
| Pyxis (upgrade) 60 month capital lease beginning 07/01/08 | \$ 2,076,252 | \$ 1,608,964 | \$ 1,210,709 |
| Senographe DS 59 month capital lease beginning 03/01/06 | \$ 415,776 | \$ 128,703 | \$ 33,395 |
| Digital Vascular System 59 month capital lease beginning 03/29/06 | \$ 748,025 | \$ 261,226 | \$ 80,311 |
| Digital Radiology Suite 59 month capital lease beginning 12/15/09 | | | \$ 367,016 |
| IV Pumps 59 month capital lease beginning 12/31/2009 | | | \$ 1,091,117 |



FY 2012 BUDGET PRESENTATION

FY11-12 Proposed

FY 2011 - 2012 PROPOSED BUDGET EXPENDITURES

| | |
|------------------------------|-----------------------|
| County Government | \$ 72,692,203 |
| Public Schools | \$ 29,129,196 |
| Blue Ridge Community College | \$ 3,895,073 |
| TOTAL | \$ 105,716,472 |

Historical Budget Information

FY 10-11 to FY 11-12

| FY 2010 - 2011 REVISED BUDGET EXPENDITURES | |
|---|----------------|
| County Government | \$ 78,170,934 |
| Public Schools | \$ 30,949,703 |
| Blue Ridge Community College | \$ 4,123,077 |
| TOTAL | \$ 113,243,714 |

| FY 2011 - 2012 PROPOSED BUDGET EXPENDITURES | |
|--|----------------|
| County Government | \$ 72,692,203 |
| Public Schools | \$ 29,129,196 |
| Blue Ridge Community College | \$ 3,895,073 |
| TOTAL | \$ 105,716,472 |

| DIFFERENCE | |
|------------|----------------|
| | \$ (5,478,731) |
| | \$ (1,820,507) |
| | \$ (228,004) |
| | \$ (7,527,242) |

1.5

1.5

5,970

Historical Budget Information

FY 06-07 to FY 11-12

| FY 2006 - 2007 REVISED BUDGET EXPENDITURES | | FY 2011 - 2012 PROPOSED BUDGET EXPENDITURES | | DIFFERENCE |
|---|-----------------------|---|-----------------------|-----------------------|
| County Government | \$ 78,221,736 | County Government | \$ 72,692,203 | \$ (5,529,533) |
| Public Schools | \$ 27,092,401 | Public Schools | \$ 29,129,196 | \$ 2,036,795 |
| Blue Ridge Community College | \$ 3,853,449 | Blue Ridge Community College | \$ 3,895,073 | \$ 41,624 |
| TOTAL | \$ 109,167,586 | TOTAL | \$ 105,716,472 | \$ (3,451,114) |

FY 2011-2012 Statutory Revenue Neutral Tax Rate

G.S. 159-11(e) defines the revenue-neutral rate as “the rate estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no revaluation had occurred.”

G.S. 159-11(e) also instructs that the revenue-neutral rate is calculated as follows:

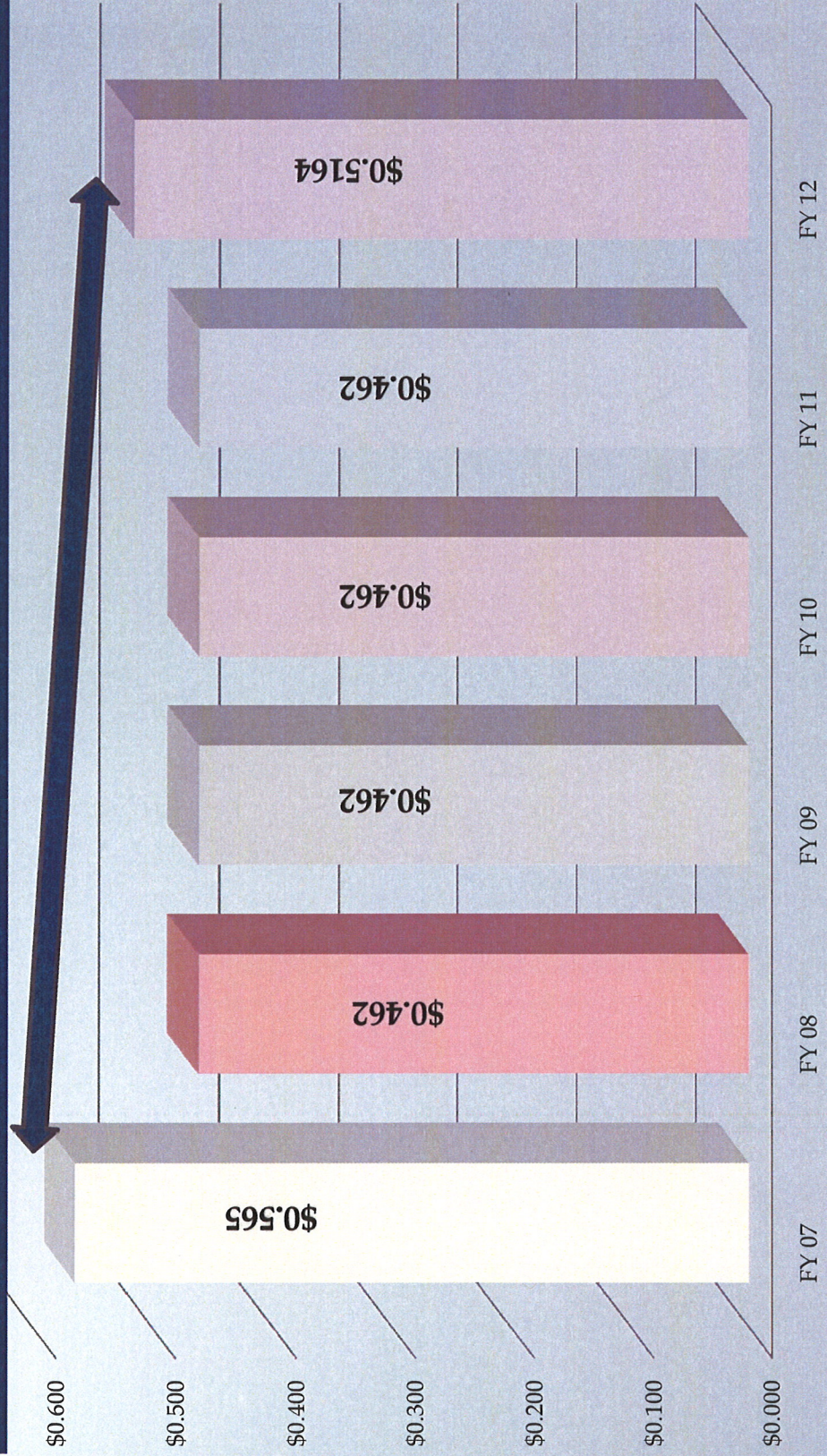
1. Determine a rate that would produce revenues equal to those produced for the current fiscal year.
2. Increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general revaluation.
3. Adjust the rate to account for any annexation, de-annexation, merger, or similar event.

| | |
|--|------------------|
| Current fiscal year FY2011 tax levy budgeted | \$58,549,491 |
| Divided by FY2012 estimated tax valuation | \$11,855,000,000 |
| Divided by first year collection rate of 97% | .97 |
| Multiplied by average growth over last 3 years | 1.0143 |
| FY2012 revenue neutral tax rate | 51.64 cents |

5 Year Tax Rate History

Ad Valorem Property Tax Rate

From FY 07 – FY 12, the Property Tax Rate has dropped \$0.0486, an 8.6% decrease



Revaluation Impact

- Although the tax rate is calculated at the statutory neutral rate, each tax payer will be affected differently according to their property values.
- Example – a property valued as \$200,000 in FY 2011

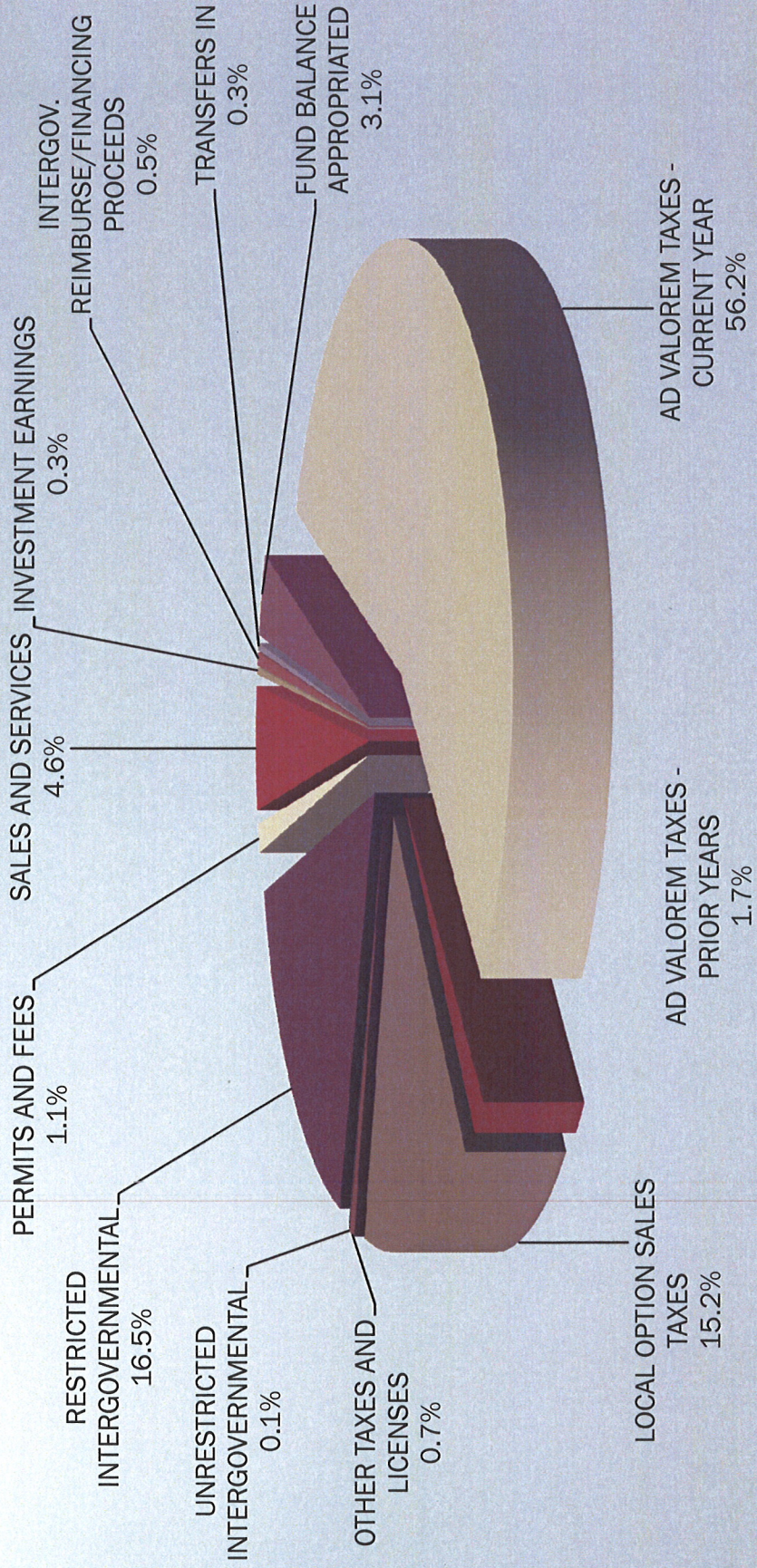
| | | FY 2012 Property Valuation Decrease Scenarios | | | | | |
|--------------------|------------|---|------------|------------|------------|------------|------------|
| | | Less 0% | Less 5% | Less 10% | Less 15% | Less 20% | Less 25% |
| Property Valuation | \$ 200,000 | \$ 200,000 | \$ 190,000 | \$ 180,000 | \$ 170,000 | \$ 160,000 | \$ 150,000 |
| Tax Rate | \$ 0.462 | \$ 0.5164 | \$ 0.5164 | \$ 0.5164 | \$ 0.5164 | \$ 0.5164 | \$ 0.5164 |
| Property Taxes = | \$ 924.00 | \$ 1,032.80 | \$ 981.16 | \$ 929.52 | \$ 877.88 | \$ 826.24 | \$ 774.60 |

Budget Preparation Framework

- I. Property tax is held at the statutory revenue neutral rate per the 2011 county-wide property revaluation.
- II. Sales tax is projected at a \$1,000,000 reduction.
- III. All locally funded agencies are capped at a maximum of the 92.5% current fiscal year expenditures - a reduction of 7.5%.
- IV. Financial reserves are strategically utilized to fill the revenue gap.
- V. Financial reserves are protected to avoid property tax increases in the following three years, subject to actions of the State and/or Federal Government or a worsening economic climate.
- VI. Staff at all levels are challenged to do more with less and to do so with compassion and integrity to an even greater degree.
- VII. Outside agencies led by their elected and appointed Governing Boards are asked to share an equivalent percentage of the burden.

Revenues

REVENUES: WHERE DOES THE MONEY COME FROM?



**HENDERSON COUNTY
FY 2011 - 2012 PROPOSED BUDGET - REVENUES**

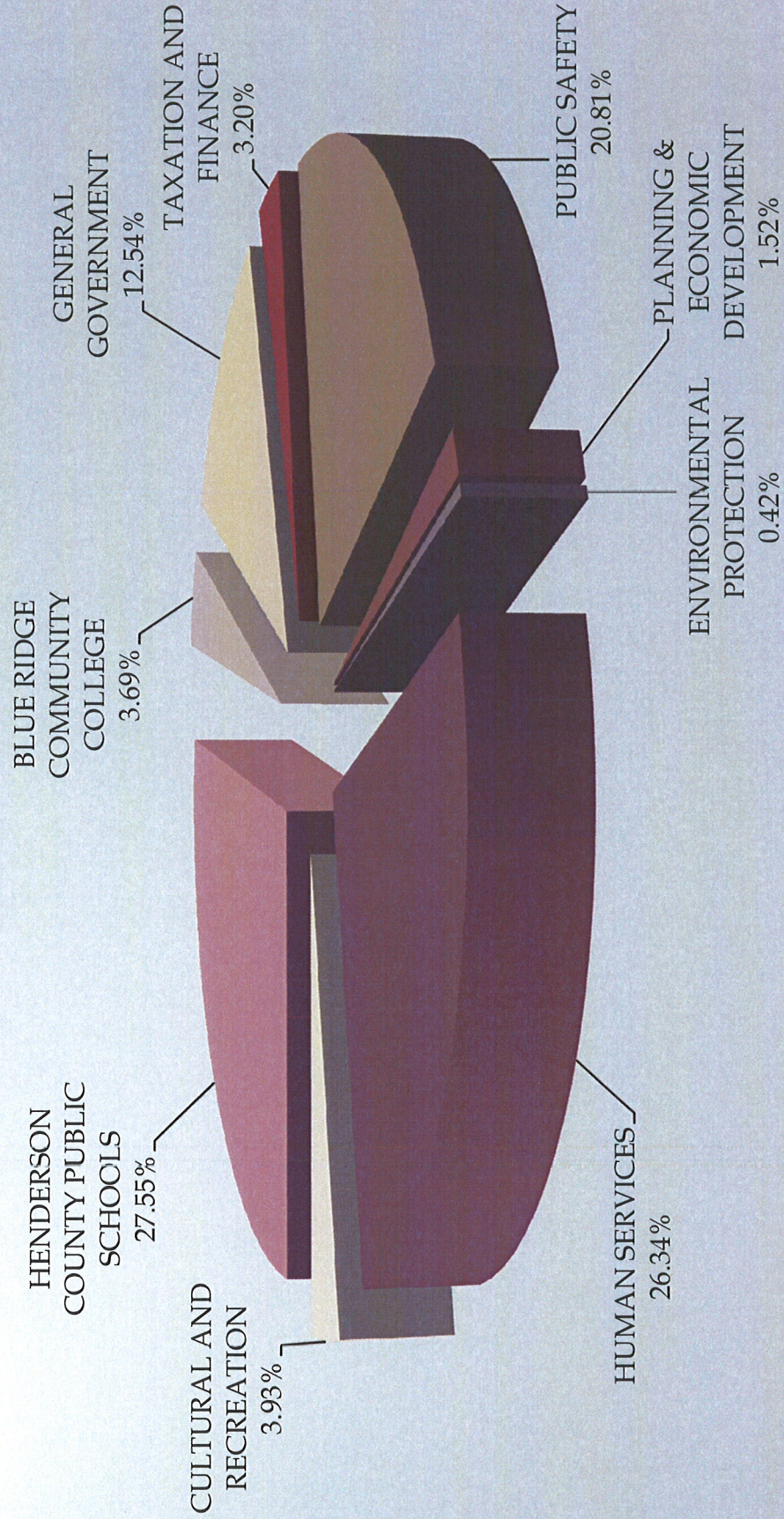
| GENERAL FUND | | SIGNIFICANT ISSUES FROM FY 2011 TO FY 2012 |
|--|--|---|
| AD VALOREM TAXES - CURRENT YEAR | | Revaluation to affect FY2012 current year taxes; statutory revenue neutral rate |
| AD VALOREM TAXES - PRIOR YEARS | | No significant issues; prior year tax collections continue to be strong; methods used for collection are expected to bring in some additional revenues in FY2012 |
| LOCAL OPTION SALES TAXES | | \$ 1 million reduction for FY2012 due to declining sales tax revenues received in the current fiscal year in a slow economic recovery |
| OTHER TAXES AND LICENSES | | Excise taxes collected on real property transactions expected to continue to be down due to the current economy and real estate market |
| UNRESTRICTED INTERGOVERNMENTAL | | No significant issues; flat budget estimate for FY2012 |
| RESTRICTED INTERGOVERNMENTAL | | Reduction in estimated federal and state funding for FY2012 including one time grants received in the current fiscal year; projected lottery proceeds reduced by 50 percent |
| PERMITS AND FEES | | Slight increase in building inspection revenue anticipated for FY2012 |
| SALES AND SERVICES | | Reduction in direct-charged indirect cost revenues and expenditures; net budget affect is zero. |
| INVESTMENT EARNINGS | | Interest rates remain low and not expected to increase sharply in FY2012 |
| INTERGOVERNMENT REIMBURSEMENT/FINANCING LOAN PROCEEDS | | Interdepartmental revenues associated with previous cost allocation plan budgeting no longer required |
| TRANSFERS IN | | New transfer from CDBG Project Fund to cover the cost of a planner administering a new project |
| FUND BALANCE APPROPRIATED | | Fund balance available for appropriation required to balance the budget; reduced by approximately 50% for FY2012 after expenditure cuts and projected revenues determined |

Local Funds

| | |
|--------------------------------------|-------------------|
| FY 2012 Proposed Budget | \$ 105,716,472 |
| Minus Intergovernmental Revenues | \$ 17,442,405 |
| Minus Mandated Maintenance of Effort | \$ <u>528,612</u> |
| Net | \$ 87,745,455 |

Total Expenditures

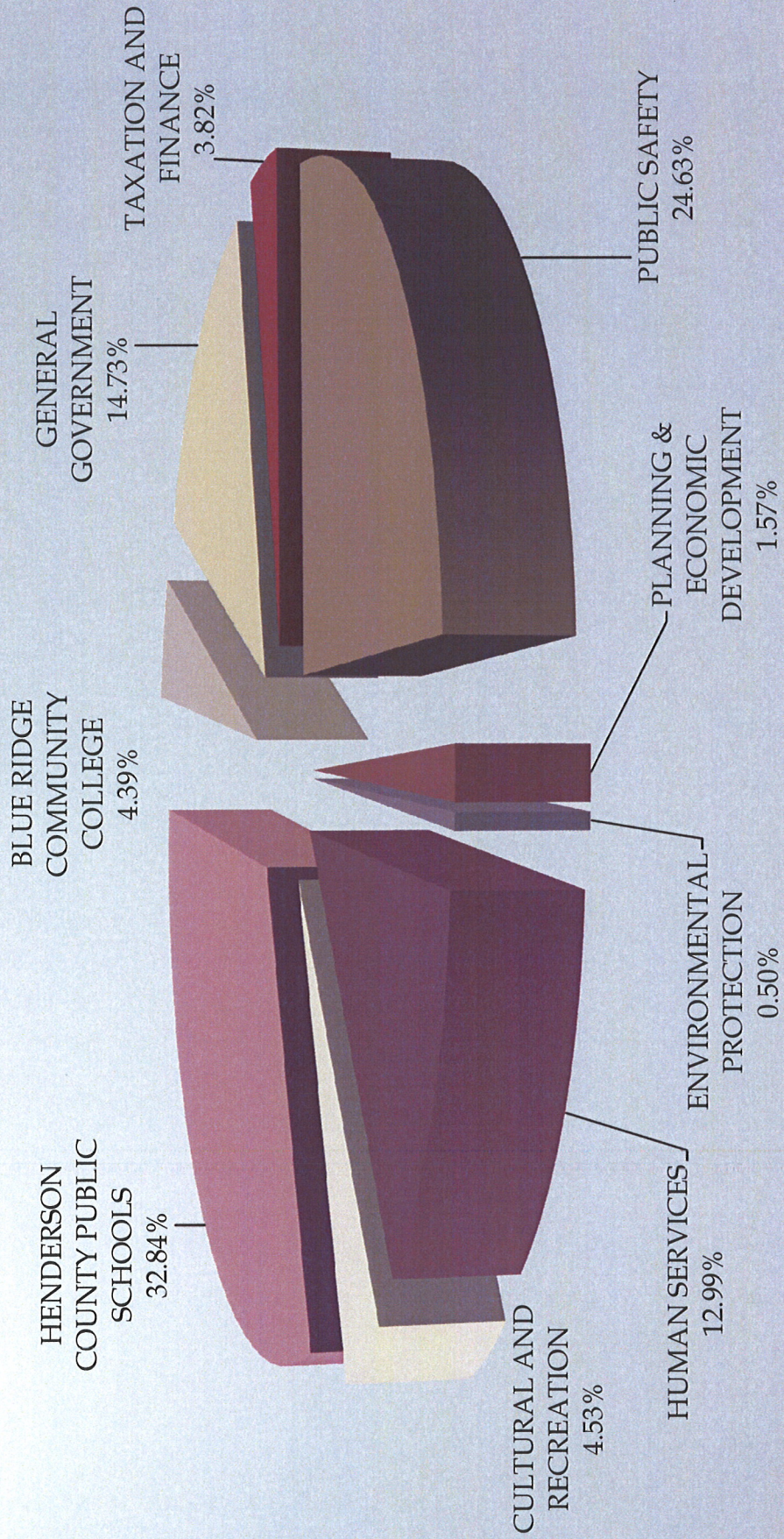
TOTAL EXPENDITURES: WHERE DOES THE MONEY GO?



Locally Funded Expenditures

Includes mandated debt service

LOCALLY FUNDED EXPENDITURES: WHERE DOES THE MONEY GO?



HENDERSON COUNTY FY 2011 - 2012 PROPOSED BUDGET - EXPENDITURES

GENERAL FUND

SIGNIFICANT ISSUES FROM FY 2011 TO FY 2012

GENERAL GOVERNMENT

| | |
|-----------------------------------|--|
| Governing Body | Reduction in funding available for Special Called Meetings, overtime, departmental supplies, travel and Professional Services. |
| Dues and Non-Profit Contributions | Decrease in proposed Non-Profit funding, funding for NACo has been removed. |
| County Manager/Admin Services | Eliminate currently vacant administrative assistant position. |
| Human Resources/Wellness Clinic | Eliminates current vacant Risk Manager position, and increases Part-Time Staff by .40 FTE. |
| Elections | Elimination of One Stop Voting sites, and Contracted Services which effects the number of poll workers. |
| Legal | Eliminates current vacant admin assistant position. |
| Register of Deeds | Reduces staffing levels by .33 FTE. |
| Central Services/Garage | Reduction in Contracted Services for cleaning services contracts, to be replaced with four (4) custodial positions. |
| Court Facilities | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Information Technology | Reduction in computer replacement. |
| Debt Service | No significant issues in FY12. Debt Service scheduled to be paid at planned levels including new debt service for the LEC. |
| Non-Departmental Accounts | Worker's Compensation has been reduced to meet the 7.5% reduction goal. |
| Transfers From the General Fund | Transit Fund transfer has been reduced to meet the 7.5% reduction goal. |

TAXATION AND FINANCE

| | |
|----------------|--|
| Finance | Reduce (1) FT Cane Creek billing position to 52% employment. |
| Tax Department | Reduction in Temp/PT funding, Legal Services and Professional and Contracted Services. |

PUBLIC SAFETY

| | |
|--------------------------------------|---|
| Sheriff | Reduction of 8 positions, and reduced funding for overtime, Wearing Apparel, DARE camp, and 4 vehicles. |
| Detention Facility | Eliminates one (1) full time bailiff position from the court house. |
| Emergency Management/Fire Services | Reduction in Temp/PT funds, maintenance contracts on repeater sites and consulting services. |
| Building Services | Eliminates one (1) currently vacant Building Inspector position, delays replacement schedule for CNG vehicles by 1 vehicle. |
| Emergency Medical Services | Eliminates Training Officer position, and 3 paramedics which would result in closing a Substation for app. 12 hrs per day. |
| Animal Services | Reduction in vaccines, supplies, diagnostic tests and equipment, and elimination of transfer to the Spay Neuter Fund. |
| Criminal Justice Partnership Program | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Rescue Squad | Reduction in contribution to Rescue Squad. |
| Code Enforcement Services | Eliminates one full-time Code Enforcement Officer position, and reallocates 1 Property Addressing position. |

PLANNING & ECONOMIC

| | |
|---------------------------------------|---|
| Property Addressing | Reallocates 1 Property Addressing position to Code Enforcement. |
| Soil & Water Conservation | Reduces one (1) FTE to .60, will share position with HRD. |
| Utilities - Cane Creek Sewer District | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Planning | Elimination of contracted services, would suspend the community planning process. |
| HOME Program | No significant issues in FY12. All HOME funds will be allocated directly by Asheville. |
| Economic Development | Reduces funding for the Partnership for Economic Development, and Historic 7th Avenue. Includes Agribusiness funding. |

ENVIRONMENTAL

| | |
|-----------------------|--|
| Forestry Services | Forestry Service has requested \$13,200 for a vehicle replacement. Current vehicle is 7 years old with app. 100,000 miles. |
| Water Quality | Reduction in overtime and departmental supplies. |
| Cooperative Extension | Departmental reduction reflects a 10% reduction in Operating Expenditures pursuant to Board direction at the November 17, 2010 Meeting. Reduction in Cooperative Budget from FY11 Adopted to FY12 Proposed is 24%. |

HUMAN SERVICES

| | |
|--------------------------------------|---|
| General Public Health | Reduction in funding for Community Adult Community Flu Clinic. Adds one project position. |
| Environmental Health | Reduction of one .50 Admin Assistant position, to be split with Health Department and elimination of the Mosquito Program. |
| Home and Community Care Block Grant | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Medical Services | No significant issues in FY12. Expenditure reduced by 7.5%. |
| Mental Health | No significant issues in FY12. Funding remains consistent at required levels. |
| Rural Operating Assistance Program | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Social Services | Spectrum Youth Home and Program would be discontinued. Children would reside in private group homes in Buncombe County or other WNC county group homes. Five (5) In-Home Aid positions would be eliminated and the services contracted. |
| Social Services - SmartStart Program | No significant issues in FY12. Revenues cover 100% of expenditures. |
| Juvenile Justice Program | No significant issues in FY12. Revenues cover 100% of expenditures. |

CULTURAL AND RECREATION

| | |
|------------|--|
| Library | Eliminates four positions. Hours at the Main Branch would be reduced by 9 per week, and hours at the Green River and Edneyville branch would be reduced by 50% |
| Recreation | Eliminates one (1) currently vacant Secretary 4 position, and cuts back on Special Events such as Movie Night, Easter, July 4th events |

HENDERSON COUNTY PUBLIC SCHOOLS

SIGNIFICANT ISSUES FROM FY 2010 TO FY 2011

Henderson County Public

| | |
|-----------------|---|
| Current Expense | Current Expense funding reduced by 7.5% |
| Capital Expense | Capital Expense funding reduced by 7.5% |
| Debt Service | No significant issues in FY12. Debt Service scheduled to be paid at planned levels. |

BLUE RIDGE COMMUNITY COLLEGE

SIGNIFICANT ISSUES FROM FY 2010 TO FY 2011

Blue Ridge Community College

| | |
|-----------------|---|
| Current Expense | Current Expense funding reduced by 7.5% |
| Capital Expense | No issues - funding remains level |
| Debt Service | No significant issues in FY12. Debt Service scheduled to be paid at planned levels. |

**SPECIAL REVENUE AND
ENTERPRISE FUNDS**
SIGNIFICANT ISSUES FROM FY 2010 TO FY 2011

| | |
|--------------------------------------|--|
| Reappraisal Reserve Fund | Decrease in Operating Expenditures due primarily to completion of the FY 11 reappraisal |
| Travel and Tourism | Reduction in Personnel Costs resulting from economic conditions |
| CDBG - Scattered Site Housing | No significant issues in FY12. Program is 100% grant funded using no county dollars |
| E911 Fund | No significant issues in FY12. Program is 100% funded with E911 surcharge fees using no county dollars. |
| CDBG - Warm Company Project | No significant issues in FY12. Program is 100% grant funded using no county dollars |
| Mud Creek Protection Project | No significant issues in FY12. Program is 100% grant funded using no county dollars |
| Public Transit Fund | A proposed service cut during the last hour of each service day saves an estimated \$40,545 in WCCA's original proposal to operate service. |
| CDBG - Talley Drive Project | No significant issues in FY12. Program is 100% grant funded using no county dollars |
| Immigrations and Customs Enforcement | Requests that one approved position be unfrozen for anticipated need in FY12 |
| Solid Waste Enterprise Fund | Primary decrease in Operating Expenditures is primarily due to an anticipated decrease in the Hauling Contract (\$677,186 decrease) associated with the economic downturn. |
| Cane Creek Water and Sewer District | Decrease in Operating Expenditures related to an FY10 transfer to Capital Project Fund for design, permitting and easement acquisition for Mud Creek Interceptor Project (\$174,000) and Mill Pond Creek Project (\$138,200) |
| Justice Academy Sewer Fund | No issues - funding remains essentially level |

Next Steps

- ▣ The Board is requested to schedule a Work Session on the FY12 budget for:
 - Tuesday, May 31, 2011 at 2:00pm

- ▣ The Board is also requested to schedule a Public Hearing on the FY12 budget for:
 - Tuesday, May 31, 2011 at 6:00pm