

**REQUEST FOR BOARD ACTION**

**HENDERSON COUNTY  
BOARD OF COMMISSIONERS**

**MEETING DATE:** May 18, 2011

**SUBJECT:** Pardee Annual Report

**ATTACHMENTS:** Yes

**SUMMARY OF REQUEST:**

Alan House and Board Chairman Bill Lapsley from Margaret R. Pardee Memorial Hospital (Henderson County Hospital Corporation) will present their Annual Report to the Board of Commissioners.

**BOARD ACTION REQUESTED:**

No action is requested. The presentation is for information purposes.

**Suggested Motion:**

No motion suggested.

**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.





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# DNV HEALTHCARE INC.

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## CERTIFICATE OF ACCREDITATION

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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:*

### **NIAHO<sup>SM</sup> 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

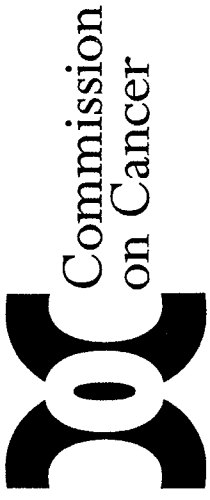
Patrick Horine  
Executive Vice President, Accreditation



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 blue horizontal line.

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

SBE:caw



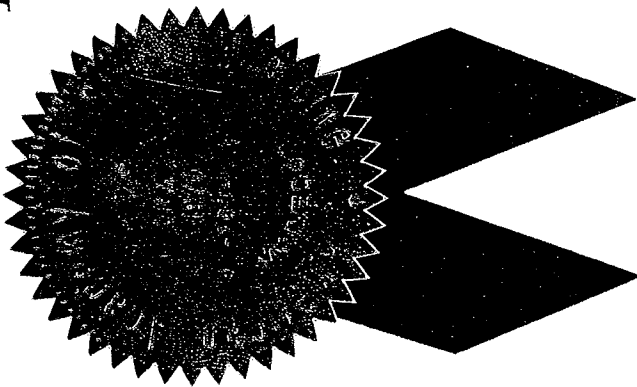
# CERTIFICATE OF ACCREDITATION

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
<b>Heart Attack</b>			
% 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%
<b>Heart Failure</b>			
% 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%
<b>Pneumonia</b>			
% 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	98	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%
<b>Surgical Care Improvement Project</b>			
% 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
<b>Outpatient Surgery</b>			
% pts receiving antibiotic within 1 hour prior to surgery	94	94	92
% pts who received the correct abx for their surgery	95	95	94
<b>Outpatient Heart Attack or Chest Pain</b>			
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:

<b>Objectives</b>	<b>Met</b>	<b>Not Met</b>	<b>Adjusted Objective/Action Plan</b>
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>
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**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:**

<b>Drill</b>	<b>Participants</b>	<b>Date</b>
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.

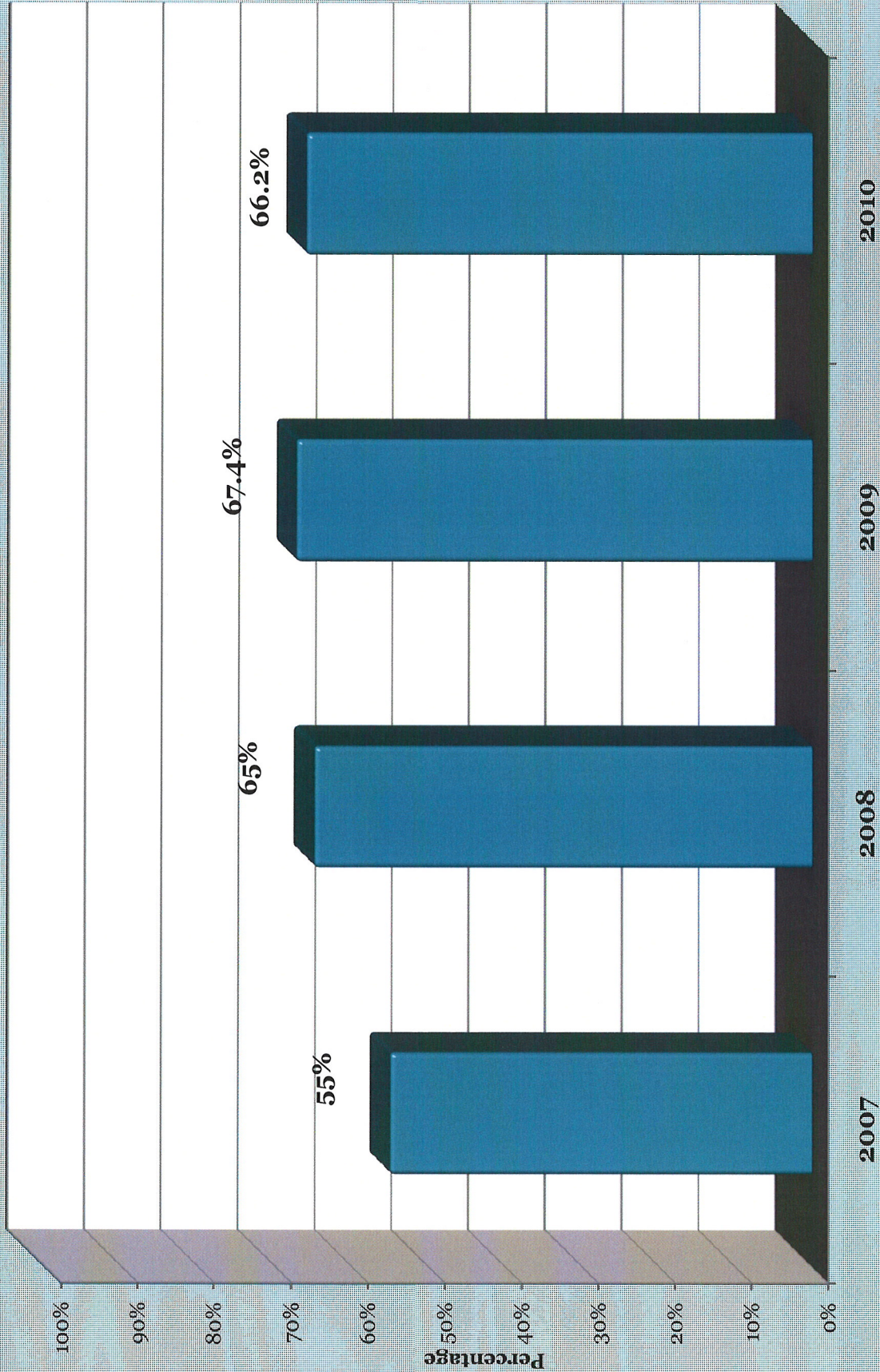
To prevent the disclosure of PHI via email, a procedure was developed by IT to encrypt emails. The new technology allows emails to be encrypted by users by typing the word "encrypt" on the subject line. The implementation of this process has significantly reduced the incidences of sending PHI via email 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**



**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 Price Increase and Government Payment Changes**

Overall 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. Pardee 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	
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
<b>GROSS PATIENT REVENUE</b>						
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 <b>Total Gross Patient Revenue</b>	<b>318,674,079</b>	<b>362,562,437</b>	<b>330,092,271</b>	<b>361,146,721</b>	<b>31,054,450</b>	<b>9.41%</b>
<b>REVENUE DEDUCTIONS</b>						
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 <b>Total Revenue Deductions</b>	<b>193,851,717</b>	<b>227,438,129</b>	<b>205,249,034</b>	<b>222,300,469</b>	<b>17,051,435</b>	<b>8.31%</b>
10 <b>Rev Deduct as a % of Gross Rev</b>	<b>60.8%</b>	<b>62.7%</b>	<b>62.2%</b>	<b>61.6%</b>		
11 <b>Net Patient Service Revenue</b>	<b>124,822,362</b>	<b>135,124,308</b>	<b>124,843,237</b>	<b>138,846,252</b>	<b>14,003,015</b>	<b>11.22%</b>
12 Other Operating Income	2,440,677	2,426,859	2,435,011	2,620,287	185,276	7.61%
13 <b>Total Operating Revenue</b>	<b>127,263,039</b>	<b>137,551,167</b>	<b>127,278,248</b>	<b>141,466,539</b>	<b>14,188,291</b>	<b>11.15%</b>
<b>OPERATING EXPENSES</b>						
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 <b>Total Operating Expenses</b>	<b>112,338,448</b>	<b>123,982,565</b>	<b>117,807,313</b>	<b>129,432,078</b>	<b>11,624,765</b>	<b>9.87%</b>
29 <b>Gross Operating Margin</b>	<b>14,924,591</b>	<b>13,568,602</b>	<b>9,470,935</b>	<b>12,034,461</b>	<b>2,563,526</b>	<b>27.07%</b>
30 Depreciation	9,910,637	9,272,670	8,594,566	9,163,423	568,857	6.62%
31 <b>Net Operating Margin</b>	<b>5,013,954</b>	<b>4,295,932</b>	<b>876,369</b>	<b>2,871,038</b>	<b>1,994,669</b>	<b>-227.61%</b>
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 <b>Total Non-Operating Income</b>	<b>1,129,230</b>	<b>1,350,184</b>	<b>1,035,198</b>	<b>1,140,948</b>	<b>105,750</b>	<b>10.22%</b>
38 <b>Net Income (Loss)</b>	<b>\$ 6,143,184</b>	<b>\$ 5,646,116</b>	<b>\$ 1,911,567</b>	<b>\$ 4,011,986</b>	<b>\$ 2,100,419</b>	<b>109.88%</b>
39 <b>Net Oper Margin to Total Oper Rev</b>	<b>3.94%</b>	<b>3.12%</b>	<b>0.69%</b>	<b>2.03%</b>		
40 <b>Net Income to Total Operating Rev</b>	<b>4.83%</b>	<b>4.10%</b>	<b>1.50%</b>	<b>2.84%</b>		
41 <b>Avg FTE's (Employee and Contract)</b>	<b>1,051.2</b>	<b>1,083.1</b>	<b>1,064.2</b>	<b>1,061.3</b>	<b>(2.9)</b>	<b>-0.27%</b>



**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"	
<b>GROSS PATIENT REVENUE</b>										
1		41.1%	\$ 130,960,001		42.8%	\$ 141,212,897		41.0%	\$ 148,052,343	
2		58.9%	187,714,078		57.2%	188,879,374		59.0%	213,094,378	
3		100.0%	<u>318,674,079</u>		100.0%	<u>330,092,271</u>		100.0%	<u>361,146,721</u>	
<b>REVENUE DEDUCTIONS</b>										
4		7.2%	22,800,604		6.5%	21,476,560		5.5%	19,816,200	
5		43.4%	138,217,029		43.8%	144,731,526		42.7%	154,035,064	
6		8.9%	28,254,257		10.6%	34,911,307		11.9%	42,960,716	
7		1.0%	3,033,443		1.0%	3,465,407		1.3%	4,750,452	
8		0.5%	1,546,384		0.2%	664,234		0.2%	738,037	
9		60.8%	<u>193,851,717</u>		62.2%	<u>205,249,034</u>		61.6%	<u>222,300,469</u>	
10		39.2%	<u>124,822,362</u>		37.8%	<u>124,843,237</u>		38.4%	<u>138,846,252</u>	
11		0.8%	2,440,677		0.7%	2,435,011		0.7%	2,620,287	
12		39.9%	<u>127,263,039</u>	100.0%	38.6%	<u>127,278,248</u>	100.0%	39.2%	<u>141,466,539</u>	100.0%
<b>OPERATING EXPENSES</b>										
13		16.1%	51,459,009	40.4%	16.2%	53,538,990	42.1%	15.7%	56,686,347	40.1%
14		4.5%	14,367,450	11.3%	4.8%	15,922,237	12.5%	4.5%	16,336,134	11.5%
15		0.3%	1,081,911	0.9%	0.3%	1,082,635	0.9%	0.2%	841,079	0.6%
16		0.5%	1,722,024	1.4%	0.5%	1,791,086	1.4%	0.6%	2,158,416	1.5%
17		2.4%	7,507,057	5.9%	2.2%	7,245,837	5.7%	2.3%	8,271,299	5.8%
18		5.4%	17,319,364	13.6%	5.6%	18,557,503	14.6%	6.7%	24,279,934	17.2%
19		1.9%	6,015,897	4.7%	1.8%	5,843,088	4.6%	1.7%	6,081,161	4.3%
20		0.2%	498,246	0.4%	0.1%	412,361	0.3%	0.1%	349,116	0.2%
		0.1%	342,634	0.3%	0.1%	307,346	0.2%	0.1%	342,394	0.2%
		0.8%	2,555,445	2.0%	0.8%	2,709,907	2.1%	0.8%	2,820,178	2.0%
23		1.5%	4,656,439	3.7%	1.5%	4,919,521	3.9%	1.5%	5,438,632	3.8%
24		0.4%	1,360,672	1.1%	0.4%	1,435,346	1.1%	0.4%	1,578,246	1.1%
25		0.5%	1,744,225	1.4%	0.7%	2,338,370	1.8%	0.7%	2,413,917	1.7%
26		0.5%	1,708,075	1.3%	0.5%	1,703,086	1.3%	0.5%	1,835,225	1.3%
27		35.3%	<u>112,338,448</u>	88.3%	35.7%	<u>117,807,313</u>	92.6%	35.8%	<u>129,432,078</u>	91.5%
28		4.7%	<u>14,924,591</u>	11.7%	2.9%	<u>9,470,935</u>	7.4%	3.3%	<u>12,034,461</u>	8.5%
29		3.1%	9,910,637	7.8%	2.6%	8,594,566	6.8%	2.5%	9,163,423	6.5%
30		1.6%	<u>5,013,954</u>	3.9%	0.3%	<u>876,369</u>	0.7%	0.8%	<u>2,871,038</u>	2.0%
31		0.4%	1,134,403	0.9%	0.2%	604,094	0.5%	0.2%	649,654	0.5%
32		0.3%	1,066,409	0.8%	0.3%	1,123,921	0.9%	0.5%	1,689,844	1.2%
33		-0.2%	(581,450)	-0.5%	-0.2%	(525,413)	-0.4%	-0.2%	(604,482)	-0.4%
34		-0.2%	(490,688)	-0.4%	-0.2%	(594,522)	-0.5%	-0.2%	(594,068)	-0.4%
35		0.0%	556	0.0%	0.1%	427,118	0.3%	0.0%	-	
36		0.4%	<u>1,129,230</u>	0.9%	0.3%	<u>1,035,198</u>	0.8%	0.3%	<u>1,140,948</u>	0.8%
37		1.9%	<u>\$ 6,143,184</u>	4.8%	0.6%	<u>\$ 1,911,567</u>	1.5%	1.1%	<u>\$ 4,011,986</u>	2.8%
38			3.94%			0.69%			2.03%	
39			4.83%			1.50%			2.84%	
40			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
<b>GROSS PATIENT REVENUE</b>						
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	<b>Total Gross Patient Revenue</b>	<b>315,112,002</b>	<b>358,838,944</b>	<b>326,801,963</b>	<b>357,680,983</b>	<b>30,879,020 9.45%</b>
<b>REVENUE DEDUCTIONS</b>						
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	<b>Total Revenue Deductions</b>	<b>192,299,666</b>	<b>225,827,431</b>	<b>203,837,196</b>	<b>220,788,356</b>	<b>16,951,160 8.32%</b>
10	<b>Rev Deduct as a % of Gross Rev</b>	<b>61.0%</b>	<b>62.9%</b>	<b>62.4%</b>	<b>61.7%</b>	
11	<b>Net Patient Service Revenue</b>	<b>122,812,336</b>	<b>133,011,513</b>	<b>122,964,767</b>	<b>136,892,627</b>	<b>13,927,860 11.33%</b>
12	Other Operating Income	2,185,990	2,123,829	2,134,590	2,349,075	214,485 10.05%
13	<b>Total Operating Revenue</b>	<b>124,998,326</b>	<b>135,135,342</b>	<b>125,099,357</b>	<b>139,241,702</b>	<b>14,142,345 11.30%</b>
<b>OPERATING EXPENSES</b>						
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	<b>Total Operating Expenses</b>	<b>109,849,744</b>	<b>121,550,207</b>	<b>115,310,643</b>	<b>126,911,304</b>	<b>11,600,661 10.06%</b>
29	<b>Gross Operating Margin</b>	<b>15,148,582</b>	<b>13,585,135</b>	<b>9,788,714</b>	<b>12,330,398</b>	<b>2,541,684 25.97%</b>
30	Depreciation	9,838,633	9,200,000	8,523,246	9,100,000	576,754 6.77%
31	<b>Net Operating Margin</b>	<b>5,309,949</b>	<b>4,385,135</b>	<b>1,265,468</b>	<b>3,230,398</b>	<b>1,964,930 155.27%</b>
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	<b>Total Non-Operating Income</b>	<b>1,129,230</b>	<b>1,350,184</b>	<b>1,035,198</b>	<b>1,140,948</b>	<b>105,750 10.22%</b>
38	<b>Net Income (Loss)</b>	<b>\$ 6,439,179</b>	<b>\$ 5,735,319</b>	<b>\$ 2,300,666</b>	<b>\$ 4,371,346</b>	<b>\$ 2,070,680 90.00%</b>
39	<b>Net Oper Margin to Total Oper Rev</b>	<b>4.25%</b>	<b>3.24%</b>	<b>1.01%</b>	<b>2.32%</b>	
40	<b>Net Income to Total Operating Rev</b>	<b>5.15%</b>	<b>4.24%</b>	<b>1.84%</b>	<b>3.14%</b>	
41	<b>Avg FTE's (Employee and Contract)</b>	<b>1,026.5</b>	<b>1,058.8</b>	<b>1,040.0</b>	<b>1,037.1</b>	<b>(2.9) -0.28%</b>



**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"	
<b>GROSS PATIENT REVENUE</b>										
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	<b>Total Gross Patient Revenue</b>	<b>100.0%</b>	<u>315,112,002</u>		<b>100.0%</b>	<u>326,801,963</u>		<b>100.0%</b>	<u>357,680,983</u>	
<b>REVENUE DEDUCTIONS</b>										
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	<b>Total Revenue Deductions</b>	<b>61.0%</b>	<u>192,299,666</u>		<b>62.4%</b>	<u>203,837,196</u>		<b>61.7%</b>	<u>220,788,356</u>	
11	<b>Net Patient Service Revenue</b>	<b>39.0%</b>	<u>122,812,336</u>		<b>37.6%</b>	<u>122,964,767</u>		<b>38.3%</b>	<u>136,892,627</u>	
12	Other Operating Income	0.7%	2,185,990		0.7%	2,134,590		0.7%	2,349,075	
13	<b>Total Operating Revenue</b>	<b>39.7%</b>	<u>124,998,326</u>	<b>100.0%</b>	<b>38.3%</b>	<u>125,099,357</u>	<b>100.0%</b>	<b>38.9%</b>	<u>139,241,702</u>	
<b>OPERATING EXPENSES</b>										
14	Salaries and Wages	15.9%	50,029,624	40.0%	15.9%	52,076,494	41.6%	15.4%	55,233,789	39.7%
15	Employee Benefits	4.4%	13,972,389	11.2%	4.7%	15,487,272	12.4%	4.5%	15,919,716	11.4%
16	Contract Labor	0.3%	1,081,911	0.9%	0.3%	1,082,635	0.9%	0.2%	841,079	0.6%
17	Physician Fees	0.5%	1,657,606	1.3%	0.5%	1,734,636	1.4%	0.6%	2,095,662	1.5%
18	Contract Fees	2.4%	7,470,190	6.0%	2.2%	7,214,745	5.8%	2.3%	8,194,020	5.9%
19	Billable Supplies	5.4%	17,150,635	13.7%	5.6%	18,400,578	14.7%	6.7%	24,117,732	17.3%
20	Miscellaneous Supplies	1.9%	5,938,660	4.8%	1.8%	5,772,241	4.6%	1.7%	6,029,668	4.3%
21	Minor Equipment	0.2%	496,996	0.4%	0.1%	409,122	0.3%	0.1%	346,292	0.2%
22	Training & Travel	0.1%	326,803	0.3%	0.1%	298,531	0.2%	0.1%	322,394	0.2%
	Utilities	0.8%	2,540,315	2.0%	0.8%	2,694,422	2.2%	0.8%	2,804,268	2.0%
	Maintenance & Repairs	1.5%	4,651,998	3.7%	1.5%	4,915,364	3.9%	1.5%	5,431,857	3.9%
25	Insurance	0.4%	1,301,439	1.0%	0.4%	1,405,346	1.1%	0.4%	1,548,246	1.1%
26	Rentals & Leases	0.5%	1,693,871	1.4%	0.7%	2,290,962	1.8%	0.7%	2,366,716	1.7%
27	Other Expense	0.5%	1,537,307	1.2%	0.5%	1,528,295	1.2%	0.5%	1,659,865	1.2%
28	<b>Total Operating Expenses</b>	<b>34.9%</b>	<u>109,849,744</u>	<b>87.9%</b>	<b>35.3%</b>	<u>115,310,643</u>	<b>92.2%</b>	<b>35.5%</b>	<u>126,911,304</u>	<b>91.1%</b>
29	<b>Gross Operating Margin</b>	<b>4.8%</b>	<u>15,148,582</u>	<b>12.1%</b>	<b>3.0%</b>	<u>9,788,714</u>	<b>7.8%</b>	<b>3.4%</b>	<u>12,330,398</u>	<b>8.9%</b>
30	Depreciation	3.1%	9,838,633	7.9%	2.6%	8,523,246	6.8%	2.5%	9,100,000	6.5%
32	<b>Net Operating Margin</b>	<b>1.7%</b>	<u>5,309,949</u>	<b>4.2%</b>	<b>0.4%</b>	<u>1,265,468</u>	<b>1.0%</b>	<b>0.9%</b>	<u>3,230,398</u>	<b>2.3%</b>
33	Investment Activity	0.4%	1,134,403	0.9%	0.2%	604,094	0.5%	0.2%	649,654	0.5%
34	Grants and Donations	0.3%	1,066,409	0.9%	0.3%	1,123,921	0.9%	0.5%	1,689,844	1.2%
35	Contributions to Foundation	-0.2%	(581,450)	-0.5%	-0.2%	(525,413)	-0.4%	-0.2%	(604,482)	-0.4%
31	Interest Expense	-0.2%	(490,688)	-0.4%	-0.2%	(594,522)	-0.5%	-0.2%	(594,068)	-0.4%
36	Gain on Sale of Asset	0.0%	556	0.0%	0.1%	427,118	0.3%	0.0%	-	0.0%
37	<b>Total Non-Operating Income</b>	<b>0.4%</b>	<u>1,129,230</u>	<b>0.9%</b>	<b>0.3%</b>	<u>1,035,198</u>	<b>0.8%</b>	<b>0.3%</b>	<u>1,140,948</u>	<b>0.8%</b>
38	<b>Net Income (Loss)</b>	<b>2.0%</b>	<u>\$ 6,439,179</u>	<b>5.2%</b>	<b>0.7%</b>	<u>\$ 2,300,666</u>	<b>1.8%</b>	<b>1.2%</b>	<u>\$ 4,371,346</u>	<b>3.1%</b>
39	<b>Net Oper Margin to Total Oper Rev</b>		4.25%			1.01%			2.32%	
40	<b>Net Income to Total Operating Rev</b>		5.15%			1.84%			3.14%	
41	<b>Avg FTE's (Employee and Contract)</b>		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
<b>GROSS PATIENT REVENUE</b>						
1 Outpatient Revenue	\$ 3,562,077	\$ 3,723,493	\$ 3,290,308	\$ 3,465,738	\$ 175,430	5.33%
2 <b>Total Gross Patient Revenue</b>	<b>3,562,077</b>	<b>3,723,493</b>	<b>3,290,308</b>	<b>3,465,738</b>	<b>175,430</b>	<b>5.33%</b>
<b>REVENUE DEDUCTIONS</b>						
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 <b>Total Revenue Deductions</b>	<b>1,552,051</b>	<b>1,610,698</b>	<b>1,411,838</b>	<b>1,512,113</b>	<b>100,275</b>	<b>7.10%</b>
9 <b>Rev Deduct as a % of Gross Rev</b>	<b>43.6%</b>	<b>43.3%</b>	<b>42.9%</b>	<b>43.6%</b>		
10 <b>Net Patient Service Revenue</b>	<b>2,010,026</b>	<b>2,112,795</b>	<b>1,878,470</b>	<b>1,953,625</b>	<b>75,155</b>	<b>4.00%</b>
11 Other Operating Income	254,687	303,030	300,421	271,212	(29,209)	-9.72%
12 <b>Total Operating Revenue</b>	<b>2,264,713</b>	<b>2,415,825</b>	<b>2,178,891</b>	<b>2,224,837</b>	<b>45,946</b>	<b>2.11%</b>
<b>OPERATING EXPENSES</b>						
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%
23 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 <b>Total Operating Expenses</b>	<b>2,488,704</b>	<b>2,432,358</b>	<b>2,496,670</b>	<b>2,520,774</b>	<b>24,104</b>	<b>0.97%</b>
29 <b>Gross Operating Margin</b>	<b>(223,991)</b>	<b>(16,533)</b>	<b>(317,779)</b>	<b>(295,937)</b>	<b>21,842</b>	<b>6.87%</b>
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 <b>Net Operating Margin</b>	<b>(295,995)</b>	<b>(89,203)</b>	<b>(389,099)</b>	<b>(359,360)</b>	<b>29,739</b>	<b>7.64%</b>
33 <b>Net Income (Loss)</b>	<b>\$ (295,995)</b>	<b>\$ (89,203)</b>	<b>\$ (389,099)</b>	<b>\$ (359,360)</b>	<b>\$ 29,739</b>	<b>7.64%</b>
34 <b>Net Oper Margin to Total Oper Rev</b>	<b>-13.07%</b>	<b>-3.69%</b>	<b>-17.86%</b>	<b>-16.15%</b>		
35 <b>Net Income to Total Operating Rev</b>	<b>-13.07%</b>	<b>-3.69%</b>	<b>-17.86%</b>	<b>-16.15%</b>		
36 <b>Avg FTE's (Employee and Contract)</b>	<b>24.7</b>	<b>24.3</b>	<b>24.2</b>	<b>24.2</b>	<b>-</b>	<b>0.00%</b>



**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
<b>Routine Capital</b>			<b>\$ 8,231,284</b>	<b>\$ 1,689,844</b>	<b>\$ 9,921,128</b>
Strategic Capital	Mission/Pardee Health Campus		3,000,000		3,000,000
<b>Total Capital</b>			<b>\$ 11,231,284</b>	<b>\$ 1,689,844</b>	<b>\$ 12,921,128</b>

**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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# LarsonAllen<sup>LLP</sup>

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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>
<b>ASSETS</b>			
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>
<b>Total Assets</b>	<u><u>\$ 156,557,371</u></u>	<u><u>\$ 152,862,557</u></u>	<u><u>\$ 144,385,204</u></u>
<b>LIABILITIES</b>			
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>
<b>Total Liabilities</b>	31,603,786	33,208,322	32,694,055
<b>NET ASSETS</b>	<u>124,953,585</u>	<u>119,654,235</u>	<u>111,691,149</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 156,557,371</u></u>	<u><u>\$ 152,862,557</u></u>	<u><u>\$ 144,385,204</u></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>
<b>OPERATING REVENUES</b>			
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	<u>3,637,491</u>	<u>4,211,957</u>	<u>5,721,324</u>
Total Operating Revenues	132,022,760	129,103,813	130,429,863
<b>OPERATING EXPENSES</b>			
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	<u>8,546,615</u>	<u>9,913,488</u>	<u>11,175,189</u>
Total Operating Expenses	<u>127,948,696</u>	<u>122,619,130</u>	<u>127,655,682</u>
<b>OPERATING INCOME</b>	4,074,064	6,484,683	2,774,181
<b>NONOPERATING INCOME</b>	<u>1,122,701</u>	<u>1,128,313</u>	<u>3,740,900</u>
<b>EXCESS REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS</b>	5,196,765	7,612,996	6,515,081
<b>CAPITAL CONTRIBUTIONS</b>	<u>102,585</u>	<u>350,090</u>	<u>8,137</u>
<b>INCREASE IN NET ASSETS</b>	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>
<b>NET ASSETS - END OF YEAR</b>	<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**

<b>ASSETS</b>	2010	2009
<b>CURRENT ASSETS</b>		
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
<b>RESTRICTED ASSETS</b>		
Investments	4,358,262	3,506,421
Pledges Receivable, Net	336,395	242,955
Total Restricted Assets	4,694,657	3,749,376
<b>CAPITAL ASSETS, AT COST</b>		
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
<b>OTHER ASSETS</b>		
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>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
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
<b>BONDS PAYABLE, NET OF CURRENT PORTION</b>	12,485,348	10,736,986
<b>OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT PORTION</b>	<u>1,898,398</u>	<u>1,321,278</u>
Total Liabilities	31,603,786	33,208,322
<b>NET ASSETS</b>		
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>
<b>OPERATING REVENUES</b>		
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>
<b>OPERATING EXPENSES</b>		
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>
<b>OPERATING INCOME</b>	4,074,064	6,484,683
<b>NONOPERATING INCOME (EXPENSE)</b>		
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>
<b>EXCESS REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS</b>	5,196,765	7,612,996
<b>CAPITAL CONTRIBUTIONS</b>	<u>102,585</u>	<u>350,090</u>
<b>INCREASE IN NET ASSETS</b>	5,299,350	7,963,086
Net Assets - Beginning of Year	<u>119,654,235</u>	<u>111,691,149</u>
<b>NET ASSETS - END OF YEAR</b>	<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**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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	1,622,735	1,825,628
Net Cash Provided by Operating Activities	9,358,269	15,712,618
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other Nonoperating Gains	430,314	391,305
Net Cash Provided by Noncapital Financing Activities	430,314	391,305
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
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	102,585	350,090
Net Cash Used in Capital and Related Financing Activities	(4,295,427)	(9,526,071)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	(91,132)	932,596
Sale (Purchases) of Investments, Net	19,676,961	(4,368,356)
Net Cash Provided by (Used in) Investing Activities	19,585,829	(3,435,760)
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	25,078,985	3,142,092
 Cash and Cash Equivalents - Beginning of Year	8,945,521	5,803,429
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 34,024,506	\$ 8,945,521
 <b>CLASSIFIED AS:</b>		
Current Assets	\$ 5,394,983	\$ 8,911,373
Investments Designated by Board of Directors	28,629,523	-
Restricted Current Assets	-	34,148
	\$ 34,024,506	\$ 8,945,521

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**

	2010	2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
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
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 9,358,269</b>	<b>\$ 15,712,618</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Accounts Payable Incurred for the Purchase of Equipment	\$ 42,112	\$ 402,860
Equipment Acquired Under Capital Lease Obligations	\$ 1,792,012	\$ -
Change in Unrealized Gains on Investments, Net	\$ 1,456,062	\$ 443,776

See accompanying Notes to Combined Financial Statements.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
MARGARET R. PARDEE MEMORIAL HOSPITAL AND AFFILIATES  
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**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.

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**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  
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**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  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
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**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  
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**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 many 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.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
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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 (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
<b>The Hospital:</b>					
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>
<b>The Foundation:</b>					
Equity Securities and Funds	6,646,374	6,646,374	-	-	-
<b>Other Investments:</b>					
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
<b>The Hospital:</b>					
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>
<b>The Foundation:</b>					
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
<b>The Hospital:</b>		
Interest and Dividends	\$ 144,361	\$ 817,033
Unrealized Gains (Losses), Net	654,384	317,368
	<u>798,745</u>	<u>1,134,401</u>
<b>The Foundation:</b>		
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>

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
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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.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
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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>

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
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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:

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

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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:

Program Year	Amount Received	Deferred at September 30,	
		2010	2009
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.

**HENDERSON COUNTY HOSPITAL CORPORATION, INC. D/B/A  
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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.

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**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.

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**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.

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**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
<b>Patients Served</b>		
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
<b>Statistical Analysis</b>		
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



