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August 10, 2012

Board of Directors  
Witham Health Services  
P.O. Box 1200  
Lebanon, IN 46052

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Witham Health Services, as of December 31, 2011 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



**Small Hospital. Big Medicine.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2011 AND 2010**

*CPAs / ADVISORS*



# WITHAM HEALTH SERVICES

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

We have audited the accompanying consolidated balance sheet of Witham Health Services (Hospital) as of December 31, 2011 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The summarized comparative information as of and for the year ended December 31, 2010 has been derived from the Hospital's 2010 consolidated financial statements and, in our report dated May 25, 2011, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2011, and its consolidated results of operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Blue & Co., LLC*

May 30, 2012

**REQUIRED SUPPLEMENTARY INFORMATION**

# WITHAM HEALTH SERVICES

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

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This section of Witham Health Services' (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2011 and 2010. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC, Creekside OB/GYN, Inc., Central Indiana Health Association, Inc. and the Discrete Component Unit, the Witham Health Services Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased approximately \$6,888,000 or 13% in 2011 compared to \$991,000 or 2% in 2010.
- The Hospital reported operating income of approximately \$9,945,000 for the year 2011, representing an increase of approximately \$6,657,000 in comparison to the year 2010 results. 2010 operating income of approximately \$3,288,000 was \$3,136,000 less than 2009.
- Total revenue increased by approximately \$36,971,000 in 2011 compared to 2010. In 2010, total revenue increased \$6,256,000 over 2009.
- Long term care services generated approximately \$27,684,000 in net patient service revenue during 2011.

### USING THIS ANNUAL REPORT

The Hospital's consolidated financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the consolidated activities and the financial position of the Hospital.

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

All of the current year's revenue earned and expenses incurred are accounted for in the consolidated statement of revenues, expenses and changes in net assets.

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

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# WITHAM HEALTH SERVICES

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

### THE BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES

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

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

#### Balance Sheets

	2011	2010	2011-2010 Change	2009	2010-2009 Change
<b>ASSETS</b>					
Current assets	\$ 73,179,944	\$ 47,896,257	\$ 25,283,687	\$ 35,915,985	\$ 11,980,272
Assets whose use is limited	8,440,776	9,259,792	(819,016)	6,559,657	2,700,135
Capital assets, net	82,557,845	87,371,997	(4,814,152)	77,632,038	9,739,959
Other assets	1,854,015	1,857,031	(3,016)	2,684,633	(827,602)
Total assets	<u>\$ 166,032,580</u>	<u>\$ 146,385,077</u>	<u>\$ 19,647,503</u>	<u>\$ 122,792,313</u>	<u>\$ 23,592,764</u>
<b>LIABILITIES</b>					
Current liabilities	\$ 31,206,434	\$ 14,066,607	\$ 17,139,827	\$ 15,661,208	\$ (1,594,601)
Long-term debt	74,236,066	78,616,142	(4,380,076)	54,419,585	24,196,557
Total liabilities	105,442,500	92,682,749	12,759,751	70,080,793	22,601,956
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	3,939,778	4,665,314	(725,536)	17,837,938	(13,172,624)
Designated					
Trustee held for debt service and capital	9,917,352	9,799,800	117,552	5,897,992	3,901,808
Internally designated for capital improvements	1,250,953	758,897	492,056	244,361	514,536
Total designated	11,168,305	10,558,697	609,608	6,142,353	4,416,344
Restricted - expendable for donor restriction	112,471	1,306,095	(1,193,624)	1,657,304	(351,209)
Unrestricted	45,369,526	37,172,222	8,197,304	27,073,925	10,098,297
Total net assets	<u>60,590,080</u>	<u>53,702,328</u>	<u>6,887,752</u>	<u>52,711,520</u>	<u>990,808</u>
Total liabilities and net assets	<u>\$ 166,032,580</u>	<u>\$ 146,385,077</u>	<u>\$ 19,647,503</u>	<u>\$ 122,792,313</u>	<u>\$ 23,592,764</u>

# WITHAM HEALTH SERVICES

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

Total assets increased approximately \$19,648,000 over 2010 primarily due to long term care services. Cash, investments and assets whose use is limited increased in total by \$8,092,000 over 2010 while capital assets decreased by approximately \$4,814,000.

Total liabilities increased \$12,760,000 over 2010 mainly due to long term care services resulting in additional accounts payable and accrued payroll and benefits.

Total assets in 2010 increased \$23,593,000 over 2009 mainly due to cash, investments and assets whose use is limited increasing in total by \$12,771,000 as well as capital additions net of depreciation of \$9,740,000.

Total liabilities increased \$22,602,000 over 2009 mainly as the result of long-term debt which increased approximately \$24,197,000 compared to 2009.

### Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010	2011-2010 Change	2009	2010-2009 Change
<b>Revenues</b>					
Net patient service revenue	\$ 110,778,251	\$ 76,780,716	\$ 33,997,535	\$ 70,750,143	\$ 6,030,573
Other operating revenue	9,313,283	6,339,542	2,973,741	6,114,123	225,419
Total revenues	120,091,534	83,120,258	36,971,276	76,864,266	6,255,992
<b>Expenses</b>					
Salaries and benefits	44,696,687	43,157,531	1,539,156	38,888,995	4,268,536
Supplies	13,771,008	10,862,444	2,908,564	10,240,658	621,786
Depreciation and amortization	6,456,685	6,116,890	339,795	3,898,481	2,218,409
Other operating expenses	45,221,971	19,695,222	25,526,749	17,412,443	2,282,779
Total expenses	110,146,351	79,832,087	30,314,264	70,440,577	9,391,510
Operating income	9,945,183	3,288,171	6,657,012	6,423,689	(3,135,518)
<b>Non-operating income (expense), net</b>	(3,057,431)	(2,297,363)	(760,068)	(1,447,122)	(850,241)
Change in net assets	6,887,752	990,808	5,896,944	4,976,567	(3,985,759)
<b>Net assets</b>					
Beginning of year	53,702,328	52,711,520	990,808	47,734,953	4,976,567
End of year	\$ 60,590,080	\$ 53,702,328	\$ 6,887,752	\$ 52,711,520	\$ 990,808

The main component of the overall change in the Hospital's net assets is its operating income. In 2010, the Hospital reported operating income of approximately \$3,288,000 compared to 2011 of approximately \$9,945,000, which is a \$6,657,000 increase from 2010. The primary reason for the change in operating income was an increase in operating revenue of approximately \$36,971,000 compared to the increase in operating expenses of only \$30,314,000. The increases can be attributed utilization changes and long term care services.

# WITHAM HEALTH SERVICES

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

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Non-operating revenues (expenses) consist primarily of investment income, interest expense and Foundation revenue and expenses. The non-operating items changed from a net expense of approximately \$2,297,000 in 2010 to a net expense of approximately \$3,057,000 in 2011. The change of approximately \$760,000 is primarily due to interest expense on the 2010 bonds for a full year in 2011 compared to a partial year in 2010.

Operating income in 2010 was approximately \$3,136,000 lower than 2009 as volumes in patient service revenue were outpaced by corresponding increases in expenses.

### STATEMENT OF CASH FLOWS

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

	2011	2010	2011-2010 Change	2009	2010-2009 Change
Cash flows from					
Operating	\$ 16,876,371	\$ 7,172,562	\$ 9,703,809	\$ 10,873,971	\$ (3,701,409)
Capital and related financing	(9,747,931)	3,089,664	(12,837,595)	(11,901,523)	14,991,187
Investing	(7,291,192)	(3,159,172)	(4,132,020)	(1,133,698)	(2,025,474)
Change in cash and equivalents	<u>\$ (162,752)</u>	<u>\$ 7,103,054</u>	<u>\$ (7,265,806)</u>	<u>\$ (2,161,250)</u>	<u>\$ 9,264,304</u>

Operating activities generated cash of approximately \$16,876,000 in 2011. Capital and related financing activities used cash of approximately \$9,748,000 in 2011. Two significant components capital and related financing activities include cash used to purchase of capital assets of \$1,586,000 and cash paid for principal and interest of approximately \$8,145,000. Investing activities used cash of approximately \$7,291,000 in 2011 mainly due to classification changes between investments and cash equivalents.

2010 generated an increase in cash and cash equivalents of approximately \$7,103,000 compared to a decrease of \$2,161,000 in 2009. The main difference related to capital expenditures in 2010 compared to 2009.

### SOURCES OF REVENUE

During 2011, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 55% of the Hospital's gross revenues in 2011, 55% in 2010 and 53% in 2009.

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# WITHAM HEALTH SERVICES

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

Following is a table of major sources of gross patient revenues for 2011 and 2010:

	2011	2010	2009
Medicare	39%	40%	40%
Medicaid	16%	15%	13%
Commercial	39%	38%	40%
Self Pay	6%	7%	7%
	100%	100%	100%

## CAPITAL ASSETS

At the end of 2011, the Hospital had approximately \$82,558,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	2011	2010	2011-2010 Change	2009	2010-2009 Change
Land and improvements	\$ 7,269,626	\$ 7,018,074	\$ 251,552	\$ 5,662,409	\$ 1,355,665
Buildings and improvements	78,497,524	77,792,023	705,501	64,288,346	13,503,677
Equipment	36,330,179	35,377,497	952,682	34,648,587	728,910
Construction in progress	41,176	368,006	(326,830)	183,946	184,060
Total property and equipment	122,138,505	120,555,600	1,582,905	104,783,288	15,772,312
Less accumulated depreciation	39,580,660	33,183,603	6,397,057	27,151,250	6,032,353
Capital assets, net	\$ 82,557,845	\$ 87,371,997	\$ (4,814,152)	\$ 77,632,038	\$ 9,739,959

Net capital assets decreased by approximately \$4,814,000 in 2011 compared to 2010 as depreciation expense outpaced current year additions. The change between 2010 and 2009 was \$9,740,000 as additional expansions were completed.

## DEBT

The Hospital's debt consists of revenue bonds, loans payable and capital lease obligations. In 2010, the Hospital issued \$40,000,000 in new debt for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. A portion of the proceeds was used to retire loans payable of approximately \$15,000,000. The 2010 Bonds were issued through the Boone County Hospital Association. More detailed information about the Hospital's long term debt is presented in the notes to the consolidated financial statements.

# **WITHAM HEALTH SERVICES**

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

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### **ECONOMIC OUTLOOK**

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

### **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 14,212,541	\$ 2,755,391	\$ -0-	\$ 16,967,932	\$ 17,177,854
Investments	22,815,133	767,693	-0-	23,582,826	14,698,081
Patient accounts receivable, less allowance for uncollectible accounts of \$4,700,000 in 2011 and \$5,740,000 in 2010	20,202,880	-0-	-0-	20,202,880	11,418,851
Other receivables	5,364,623	10,176	-0-	5,374,799	658,360
Inventory and other current assets	4,119,560	91,947	-0-	4,211,507	1,338,111
Current portion of assets whose use is limited	2,840,000	-0-	-0-	2,840,000	2,605,000
Total current assets	69,554,737	3,625,207	-0-	73,179,944	47,896,257
<b>Assets whose use is limited</b>					
Held by trustee for debt service and capital	9,917,352	-0-	-0-	9,917,352	9,799,800
Designated for capital improvements	1,250,953	-0-	-0-	1,250,953	758,897
Donor restricted	-0-	112,471	-0-	112,471	1,306,095
Total assets whose use is limited	11,168,305	112,471	-0-	11,280,776	11,864,792
Less current portion	2,840,000	-0-	-0-	2,840,000	2,605,000
Noncurrent assets whose use is limited	8,328,305	112,471	-0-	8,440,776	9,259,792
<b>Capital assets</b>					
Land and improvements	7,269,626	-0-	-0-	7,269,626	7,018,074
Depreciable capital assets	114,827,703	-0-	-0-	114,827,703	113,169,520
Construction in progress	41,176	-0-	-0-	41,176	368,006
	122,138,505	-0-	-0-	122,138,505	120,555,600
Less accumulated depreciation	39,580,660	-0-	-0-	39,580,660	33,183,603
Capital assets, net	82,557,845	-0-	-0-	82,557,845	87,371,997
<b>Other assets</b>					
Investment in affiliates and other	639,366	-0-	-0-	639,366	564,715
Debt issue costs, net of accumulated amortization of \$196,000 in 2011 and \$137,000 in 2010	889,778	-0-	-0-	889,778	949,405
Other	324,871	-0-	-0-	324,871	342,911
Total other assets	1,854,015	-0-	-0-	1,854,015	1,857,031
Total assets	\$ 162,294,902	\$ 3,737,678	\$ -0-	\$ 166,032,580	\$ 146,385,077

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 15,919,811	\$ -0-	\$ -0-	\$ 15,919,811	\$ 1,430,842
Accrued salaries and related liabilities	5,627,949	-0-	-0-	5,627,949	3,660,776
Accrued expenses and other current liabilities	4,055,488	11,296	-0-	4,066,784	3,560,690
Estimated third-party settlements	1,209,889	-0-	-0-	1,209,889	1,323,758
Current portion of long term debt					
Capital lease obligation	1,263,579	-0-	-0-	1,263,579	1,219,785
Loans payable	278,422	-0-	-0-	278,422	265,756
Revenue bonds payable	2,840,000	-0-	-0-	2,840,000	2,605,000
Total current liabilities	<u>31,195,138</u>	<u>11,296</u>	<u>-0-</u>	<u>31,206,434</u>	<u>14,066,607</u>
<b>Long term debt, net of current portion</b>					
Capital lease obligation	2,313,765	-0-	-0-	2,313,765	3,573,439
Loans payable	2,218,501	-0-	-0-	2,218,501	2,503,640
Revenue bonds payable	69,703,800	-0-	-0-	69,703,800	72,539,063
Total long term debt	<u>74,236,066</u>	<u>-0-</u>	<u>-0-</u>	<u>74,236,066</u>	<u>78,616,142</u>
Total liabilities	105,431,204	11,296	-0-	105,442,500	92,682,749
<b>Net assets</b>					
Invested in capital assets, net of related debt	3,939,778	-0-	-0-	3,939,778	4,665,314
Designated					
Trustee held for debt service and capital	9,917,352	-0-	-0-	9,917,352	9,799,800
Internally designated for capital improvements	1,250,953	-0-	-0-	1,250,953	758,897
Total designated	<u>11,168,305</u>	<u>-0-</u>	<u>-0-</u>	<u>11,168,305</u>	<u>10,558,697</u>
Restricted - expendable for donor restriction	-0-	112,471	-0-	112,471	1,306,095
Unrestricted	41,755,615	3,613,911	-0-	45,369,526	37,172,222
Total net assets	<u>56,863,698</u>	<u>3,726,382</u>	<u>-0-</u>	<u>60,590,080</u>	<u>53,702,328</u>
Total liabilities and net assets	<u>\$ 162,294,902</u>	<u>\$ 3,737,678</u>	<u>\$ -0-</u>	<u>\$ 166,032,580</u>	<u>\$ 146,385,077</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

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

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Revenue</b>					
Net patient service revenue	\$ 110,778,251	\$ -0-	\$ -0-	\$ 110,778,251	\$ 76,780,716
Other operating revenue	9,313,283	-0-	-0-	9,313,283	6,339,542
Total operating revenue	120,091,534	-0-	-0-	120,091,534	83,120,258
<b>Operating expenses</b>					
Salaries and wages	33,658,979	-0-	-0-	33,658,979	32,442,629
Employee benefits	11,037,708	-0-	-0-	11,037,708	10,714,902
Professional medical fees	6,252,181	-0-	-0-	6,252,181	7,097,850
Purchased services	17,175,800	-0-	-0-	17,175,800	3,646,860
Supplies	13,771,008	-0-	-0-	13,771,008	10,862,444
Repairs and maintenance	2,996,417	-0-	-0-	2,996,417	2,413,147
Equipment and facility rental	4,914,273	-0-	-0-	4,914,273	2,150,719
Utilities	2,838,031	-0-	-0-	2,838,031	1,327,501
Depreciation and amortization	6,456,685	-0-	-0-	6,456,685	6,116,890
Insurance	997,761	-0-	-0-	997,761	943,689
Other expenses	10,047,508	-0-	-0-	10,047,508	2,115,456
Total operating expenses	110,146,351	-0-	-0-	110,146,351	79,832,087
Operating income	9,945,183	-0-	-0-	9,945,183	3,288,171
<b>Nonoperating revenue (expense)</b>					
Investment income	337,369	17,720	-0-	355,089	322,585
Interest expense	(3,889,759)	-0-	-0-	(3,889,759)	(3,438,187)
Foundation revenue	-0-	221,017	-0-	221,017	745,974
Foundation expense	-0-	(149,906)	24,998	(124,908)	(561,425)
Gain on investment in affiliates	151,338	-0-	-0-	151,338	544,125
Other nonoperating revenue	254,790	-0-	(24,998)	229,792	89,565
Total nonoperating revenue (expense), net	(3,146,262)	88,831	-0-	(3,057,431)	(2,297,363)
Change in net assets	6,798,921	88,831	-0-	6,887,752	990,808
<b>Net assets</b>					
Beginning of year	50,064,777	3,637,551	-0-	53,702,328	52,711,520
End of year	<u>\$ 56,863,698</u>	<u>\$ 3,726,382</u>	<u>\$ -0-</u>	<u>\$ 60,590,080</u>	<u>\$ 53,702,328</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

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

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 101,880,353	\$ -0-	\$ -0-	\$ 101,880,353	\$ 74,719,135
Cash paid for salaries, wages and benefits	(42,729,514)	-0-	-0-	(42,729,514)	(42,596,629)
Cash paid to vendors and suppliers	(51,642,041)	-0-	-0-	(51,642,041)	(31,329,571)
Other receipts, net	9,313,283	54,290	-0-	9,367,573	6,379,627
Net cash flows from operating activities	16,822,081	54,290	-0-	16,876,371	7,172,562
<b>Capital and related financing activities</b>					
Acquisition and construction of capital assets	(1,602,998)	-0-	-0-	(1,602,998)	(15,806,976)
Cash paid for interest on long-term debt	(4,051,580)	-0-	-0-	(4,051,580)	(2,494,222)
Cash paid for debt issuance costs	-0-	-0-	-0-	-0-	(1,032,309)
Proceeds from long-term debt	-0-	-0-	-0-	-0-	40,000,000
Principal payments for long-term debt	(4,093,353)	-0-	-0-	(4,093,353)	(17,576,829)
Net cash flows from capital and related financing activities	(9,747,931)	-0-	-0-	(9,747,931)	3,089,664
<b>Investing activities</b>					
Investment income	337,369	17,720	-0-	355,089	331,057
Purchase investments	(11,783,203)	(699,455)	-0-	(12,482,658)	(7,612,065)
Proceeds from sale of investments	3,960,134	724,905	-0-	4,685,039	3,577,711
Gain on investment in affiliates	151,338	-0-	-0-	151,338	544,125
Net cash flows from investing activities	(7,334,362)	43,170	-0-	(7,291,192)	(3,159,172)
Net change in cash and cash equivalents	(260,212)	97,460	-0-	(162,752)	7,103,054
<b>Cash and cash equivalents</b>					
Beginning of year	21,555,372	2,770,402	-0-	24,325,774	17,222,720
End of year	<u>\$ 21,295,160</u>	<u>\$ 2,867,862</u>	<u>\$ -0-</u>	<u>\$ 24,163,022</u>	<u>\$ 24,325,774</u>
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>					
Cash and cash equivalents					
Included in current assets	\$ 14,212,541	\$ 2,755,391	\$ -0-	\$ 16,967,932	\$ 17,177,854
In investments	918,514	-0-	-0-	918,514	918,378
In assets whose use is limited - held by trustee	4,913,152	-0-	-0-	4,913,152	4,866,520
In assets whose use is limited - designated	1,250,953	-0-	-0-	1,250,953	758,897
In assets whose use is limited - donor restricted	-0-	112,471	-0-	112,471	604,125
Total cash and cash equivalents	<u>\$ 21,295,160</u>	<u>\$ 2,867,862</u>	<u>\$ -0-</u>	<u>\$ 24,163,022</u>	<u>\$ 24,325,774</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

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

	2011			2010	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 9,945,183	\$ -0-	\$ -0-	\$ 9,945,183	\$ 3,288,171
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	6,456,685	-0-	-0-	6,456,685	6,116,890
Bad debts	11,097,696	-0-	-0-	11,097,696	12,188,235
Changes in operating assets and liabilities					
Patient accounts receivable	(19,881,725)	-0-	-0-	(19,881,725)	(14,241,823)
Other receivables	(4,787,408)	70,969	-0-	(4,716,439)	55,537
Inventory and other current assets	(2,845,421)	(27,975)	-0-	(2,873,396)	88,742
Accounts payable	14,488,969	-0-	-0-	14,488,969	(1,628,621)
Accrued salaries and related liabilities	1,967,173	-0-	-0-	1,967,173	560,902
Accrued expenses and other current liabilities	494,798	11,296	-0-	506,094	752,522
Estimated third-party settlements	(113,869)	-0-	-0-	(113,869)	(7,993)
Net cash flows from operating activities	\$ 16,822,081	\$ 54,290	\$ -0-	\$ 16,876,371	\$ 7,172,562

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Witham Health Services (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient and outpatient health care and long term care services. The Board of County Commissioners of Boone County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Boone County.

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Boone County Hospital Association (Association). The Association was created pursuant to the provisions of the IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements for the year ended December 31, 2010, from which the summarized information was derived.

#### Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is consolidated with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC), Creekside OB/GYN, Inc. (Creekside), and Central Indiana Health Association, Inc. (CIHA) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC, Creekside, and CIHA. Although they are

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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legally separate from the Hospital, MOP, LLC, Creekside, and CIHA are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital.

The Association is a blended component unit consolidated within the Hospital's activities for financial reporting purposes.

All significant transactions between the Hospital and MOP, LLC, Creekside, CIHA and the Association have been eliminated for financial reporting purposes.

### Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

### Long Term Care Services

As of December 31, 2011, the Hospital owns the operations of twenty-four long term care facilities through arrangements with Ambassador Healthcare, LLC and Magnolia Health Management, LLC (the Managers) of the long term care facilities. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the Managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2011, the Hospital entered into lease agreements with the long term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital pays the Managers a management fee to manage the facilities on behalf of the Hospital in accordance with the terms of the agreements. The agreements with Ambassador Healthcare, LLC expire on June 30, 2016. The agreements with Magnolia Health Management, LLC expire on September 30, 2026. All parties involved can terminate the agreements without cause with 90 days written notice.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Use of Estimates

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Enterprise Fund Accounting

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

### Accounting Standards

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

### Cash and Cash Equivalents

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

### Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value.

Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or an United States Government Agency. Debt securities are reported at fair value.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Mutual funds are reported at fair value based on the fund's market price.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating income in the consolidated statements of revenues, expense and changes in net assets.

### Patient Accounts Receivable and Net Patient Service Revenue

The Hospital provides services to patients who reside primarily in the local geographic region. Patient accounts receivable and patient service revenues are recorded when patient services are performed and are reported based on gross charges, net of certain deductions from those charges. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2006.

Amounts for unresolved cost reports for 2007 through 2011 are reflected in estimated third-party settlements on the consolidated balance sheets. During 2011 and 2010, the Hospital recognized \$-0- in the statements of revenues and expenses, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues.

### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue. Rather, charges approved for charity are posted to gross revenue and subsequently written off as a charity adjustment before the resulting net practice revenue.

Of the Hospital's total expenses reported (approximately \$110,146,000 and \$79,832,000 during 2011 and 2010, respectively), an estimated \$2,158,000 and \$1,932,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

### Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

### Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the consolidated financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments held by trustees for debt service and capital improvements and assets that are donor restricted. These investments consist primarily of cash and cash equivalents, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the consolidated statements of revenues, expenses and changes in net assets.

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# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Capital Assets and Depreciation

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

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

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 to 20 years
Buildings and fixed equipment	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

### Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are expendable noncapital net assets that must be used for a particular purpose, as specified by creditors or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted assets.

### Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and non-operating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as non-operating gains or losses.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months.

### Costs of Borrowing

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

### Debt Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of debt over the life of the debt. Debt issue costs were approximately \$890,000 and \$949,000 as of December 31, 2011 and 2010, respectively. Accumulated amortization as of December 31, 2011 and 2010 was approximately \$196,000 and \$137,000, respectively. The Hospital expects to recognize amortization expense of approximately \$60,000 annually until the debt issue costs are fully amortized.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under IC 16-22 and is exempt from Federal income tax under Section 115 of the Internal Revenue Code and as a not-for-profit organization under Section 501(c)(3). As such, the Hospital is generally exempt from income taxes. As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Association is a governmental instrumentality organized under IC 16-22-6 and is exempt from Federal income tax under Section 115 of the Internal Revenue. As such, the Foundation is generally exempt from income taxes and is not required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Foundation and CIHA are tax-exempt organizations under section 501(c)(3). As such, they are generally exempt from income taxes. However, they are required to file Federal Form 990 – Return of Organization from Income Tax.

MOP, LLC is organized as a limited liability company, whereby net taxable income is taxed directly to the members and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Creekside is organized as a S corporation, whereby net taxable income is taxed directly to the shareholders and not the entity. Thus, the consolidated financial statements do not include any provision for Federal or state income taxes.

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

These entities have filed their Federal and state income tax returns for periods through December 31, 2010. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Compensated Absences

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

### Risk Management

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

### Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. The Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Indiana Patient Compensation Fund.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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On July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.

This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

### Litigation

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

### Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$608,023 and \$648,966 for 2011 and 2010, respectively.

### Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on the previously reported consolidated net assets and consolidated change in net assets.

### Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2011 and 2010, the Hospital recognized approximately \$479,000 and \$-0-, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the consolidated statement of revenues, expenses and changes in net assets. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

### Subsequent Events

The Hospital evaluates events or transactions occurring subsequent to consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is May 30, 2012.

## 2. NET PATIENT SERVICE REVENUE

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Medicare

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

### Medicaid

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

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,557,000 and \$1,673,000 during 2011 and 2010, respectively. These programs are Federal programs administered by the State of Indiana.

### Other Payors

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

## WITHAM HEALTH SERVICES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following is a summary of net patient service revenue for 2011 and 2010:

	2011	2010
Inpatient routine services	\$ 13,212,597	\$ 12,201,509
Inpatient ancillary services	35,626,996	35,123,670
Outpatient ancillary services	185,167,788	165,844,017
Long term care	37,113,249	-0-
Gross patient service revenue	271,120,630	213,169,196
Contractual allowances	144,031,811	119,047,228
Charity care	5,212,872	5,153,017
Bad debts	11,097,696	12,188,235
Deductions from revenue	160,342,379	136,388,480
Net patient service revenue	\$ 110,778,251	\$ 76,780,716

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care provided during 2011 and 2010 was \$5,213,000 and \$5,153,000, respectively.

### 3. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31:

	2011	2010
Cash and cash equivalents	\$ 918,514	\$ 918,378
Certificates of deposit	-0-	20,062
Mutual funds	767,693	-0-
US Government securities	21,896,619	13,759,641
	\$ 23,582,826	\$ 14,698,081

### 4. ASSETS WHOSE USE IS LIMITED

Held by trustee – Amounts deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long term debt borrowings to be expended for debt service and capital.

Designated for capital improvements – Amounts designed internally for capital improvements.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Donor restricted – Amounts designated by donor restrictions.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	<u>2011</u>	<u>2010</u>
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 4,913,152	\$ 4,866,520
Certificates of deposit	2,000,000	2,000,000
US Government securities	<u>3,004,200</u>	<u>2,933,280</u>
Total held by trustee for debt service and capital	9,917,352	9,799,800
Designated for capital improvements		
Cash and cash equivalents	1,250,953	758,897
Donor restricted		
Cash and cash equivalents	112,471	604,125
Mutual funds	-0-	<u>701,970</u>
Total donor restricted	<u>112,471</u>	<u>1,306,095</u>
	<u>\$ 11,280,776</u>	<u>\$ 11,864,792</u>

## 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Market value approximated cost as of December 31, 2011 and 2010.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The Hospital's investments generally are reported at fair value. As of December 31, 2011 and 2010, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

	December 31, 2011				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 24,900,819	\$ -0-	\$ 21,886,119	\$ 3,014,700	\$ -0-
Certificates of deposit	2,000,000	1,000,000	1,000,000	-0-	-0-
Mutual funds	767,693	767,693	-0-	-0-	-0-
	\$ 27,668,512	\$ 1,767,693	\$ 22,886,119	\$ 3,014,700	\$ -0-

	December 31, 2010				
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 16,692,921	\$ -0-	\$ 15,210,991	\$ 1,481,930	\$ -0-
Certificates of deposit	2,020,062	20,062	2,000,000	-0-	-0-
Mutual funds	701,970	701,970	-0-	-0-	-0-
	\$ 19,414,953	\$ 722,032	\$ 17,210,991	\$ 1,481,930	\$ -0-

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Deposits and investments consist of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Carrying amount		
Deposits	\$ 24,163,022	\$ 24,325,774
Investments	27,668,512	19,414,953
	<u>\$ 51,831,534</u>	<u>\$ 43,740,727</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 16,967,932	\$ 17,177,854
Investments	23,582,826	14,698,081
Held by trustee	9,917,352	9,799,800
Designated	1,250,953	758,897
Donor restricted	112,471	1,306,095
	<u>\$ 51,831,534</u>	<u>\$ 43,740,727</u>

## 6. FAIR VALUE MEASUREMENTS

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

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

### Level 1 Fair Value Measurements

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

### Level 2 Fair Value Measurements

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

The fair value of US Government securities is based on estimates of similar investments and the use of third party services.

### Level 3 Fair Value Measurements

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

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
Mutual funds				
Growth & Income	\$ 186,057	\$ 186,057	\$ -0-	\$ -0-
Income	362,519	362,519	-0-	-0-
Aggressive	31,115	31,115	-0-	-0-
Growth	73,973	73,973	-0-	-0-
International equity	114,029	114,029	-0-	-0-
Total mutual funds	767,693	767,693	-0-	-0-
US Government securities				
Federal Home Loan Mortgage	11,274,510	-0-	11,274,510	-0-
FNMA	10,622,109	-0-	10,622,109	-0-
Total US Government securities	21,896,619	-0-	21,896,619	-0-
	22,664,312	<u>\$ 767,693</u>	<u>\$ 21,896,619</u>	<u>\$ -0-</u>
Cash and cash equivalents	918,514			
Total investments	<u>\$ 23,582,826</u>			
Assets whose use is limited				
US Government securities				
Federal Home Loan Mortgage	\$ 3,004,200	<u>\$ -0-</u>	<u>\$ 3,004,200</u>	<u>\$ -0-</u>
Cash and equivalents	6,276,576			
Certificates of deposit at contract value	2,000,000			
Total assets whose use is limited	<u>\$ 11,280,776</u>			
December 31, 2010				
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
US Government securities				
Federal Home Loan Mortgage	\$ 7,125,555	\$ -0-	\$ 7,125,555	\$ -0-
FNMA	6,634,086	-0-	6,634,086	-0-
Total US Government securities	13,759,641	<u>\$ -0-</u>	<u>\$ 13,759,641</u>	<u>\$ -0-</u>
Cash and cash equivalents	918,378			
Certificates of deposit at contract value	20,062			
Total investments	<u>\$ 14,698,081</u>			
Assets whose use is limited				
US Government securities				
Federal Home Loan Mortgage	\$ 2,933,280	\$ -0-	\$ 2,933,280	\$ -0-
Mutual funds				
Growth & Income	287,887	287,887	-0-	-0-
Income	120,620	120,620	-0-	-0-
Growth	137,276	137,276	-0-	-0-
International Equity	156,187	156,187	-0-	-0-
Total mutual funds	701,970	701,970	-0-	-0-
	3,635,250	<u>\$ 701,970</u>	<u>\$ 2,933,280</u>	<u>\$ -0-</u>
Cash and equivalents	6,229,542			
Certificates of deposit at contract value	2,000,000			
Total assets whose use is limited	<u>\$ 11,864,792</u>			

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value based on short term maturity. The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments.

Long term debt: Fair value of the Hospital fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2011, the carrying value of the fixed rate long term debt was \$72,315,000 with a fair value of approximately \$76,947,000. The carrying value of loans payable and capital lease obligations approximates fair value based on incremental borrowing rates of similarly rated entities.

### 7. CAPITAL ASSETS

A summary of property and equipment for 2011 and 2010 follow:

	December 31				December 31
	2010	Additions	Disposals	Transfers	2011
Land and improvements	\$ 7,018,074	\$ 261,552	\$ (10,000)	\$ -0-	\$ 7,269,626
Buildings and improvements	77,792,023	186,429	-0-	519,072	78,497,524
Equipment	35,377,497	950,077	-0-	2,605	36,330,179
Construction in progress	368,006	204,940	(10,093)	(521,677)	41,176
Total capital assets	<u>120,555,600</u>	<u>1,602,998</u>	<u>(20,093)</u>	<u>-0-</u>	<u>122,138,505</u>
Less accumulated depreciation					
Land improvements	1,027,043	219,364	-0-	-0-	1,246,407
Buildings and improvements	11,411,993	2,281,371	-0-	-0-	13,693,364
Equipment	20,744,567	3,896,322	-0-	-0-	24,640,889
Total accumulated depreciation	<u>33,183,603</u>	<u>6,397,057</u>	<u>-0-</u>	<u>-0-</u>	<u>39,580,660</u>
Capital assets, net	<u>\$ 87,371,997</u>	<u>\$ (4,794,059)</u>	<u>\$ (20,093)</u>	<u>\$ -0-</u>	<u>\$ 82,557,845</u>

	December 31				December 31
	2009	Additions	Disposals	Transfers	2010
Land and improvements	\$ 5,662,409	\$ 1,354,489	\$ -0-	\$ 1,176	\$ 7,018,074
Buildings and improvements	64,288,346	10,243,932	-0-	3,259,745	77,792,023
Equipment	34,648,587	271,775	(34,664)	491,799	35,377,497
Construction in progress	183,946	3,936,780	-0-	(3,752,720)	368,006
Total capital assets	<u>104,783,288</u>	<u>15,806,976</u>	<u>(34,664)</u>	<u>-0-</u>	<u>120,555,600</u>
Less accumulated depreciation					
Land improvements	816,747	210,296	-0-	-0-	1,027,043
Buildings and improvements	9,464,158	1,947,835	-0-	-0-	11,411,993
Equipment	16,870,345	3,908,886	(34,664)	-0-	20,744,567
Total accumulated depreciation	<u>27,151,250</u>	<u>6,067,017</u>	<u>(34,664)</u>	<u>-0-</u>	<u>33,183,603</u>
Capital assets, net	<u>\$ 77,632,038</u>	<u>\$ 9,739,959</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 87,371,997</u>

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Depreciation and amortization expense for 2011 and 2010 was approximately \$6,457,000 and \$6,117,000, respectively.

There were no significant construction commitments as of December 31, 2011 and 2010.

### 8. LONG TERM DEBT

A summary of long term debt is as follows:

- In 2010, the Hospital issued Lease Rental Revenue Bonds, Series 2010, in the amount of \$40 million through the Association. The proceeds from the Series 2010 Bonds were used for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. Additionally, \$15,000,000 was used to retire previously issued debt.

The Series 2010 Bond payments are due in semiannual installments through January 2030 ranging from \$650,000 to \$1,485,000, with interest rates between 2% and 5.25%. The Series 2010 Bonds are secured by net revenues and certain assets held by the trustee.

- Revenue Bonds, Series 2005 with annual principal payments ranging from \$1,305,000 to \$2,995,000, plus fixed interest ranging from 3.5% to 5.5% due in 2027 secured by assets and revenues of the Hospital.
- Loan payable with local financial institutions, due in monthly installments at an interest rate of 4.50%, due through 2023, secured by real property.
- In December 2009, through the Indiana Finance Authority, the Hospital entered into capital lease obligation, due in monthly installments with interest at 3.85% through December 2014 secured by equipment. The total cost of the equipment was approximately \$5,963,000 as of December 31, 2011 and 2010 with accumulated amortization of approximately \$2,386,000 and \$1,128,000, respectively.

Certain long term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2011, the Hospital believed it was in compliance with the ratios.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

The following represents a progression of long term debt for 2011 and 2010:

	December 31, 2010	Additional Borrowings	Payments	December 31, 2011	Current Portion
2005 Revenue bonds	\$ 34,920,000	\$ -0-	\$ 1,305,000	\$ 33,615,000	\$ 1,380,000
2010 Revenue bonds	40,000,000	-0-	1,300,000	\$ 38,700,000	1,460,000
Loans payable	2,769,397	-0-	272,473	2,496,924	278,422
Capital lease obligation	4,793,224	-0-	1,215,880	3,577,344	1,263,579
	82,482,621	\$ -0-	\$ 4,093,353	78,389,268	\$ 4,382,001
Unamortized loss on bond defeasance	(2,474,113)			(2,310,984)	
Unamortized bond premium	2,698,175			2,539,783	
	\$ 82,706,683			\$ 78,618,067	
	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
2005 Revenue bonds	\$ 36,160,000	\$ -0-	\$ 1,240,000	\$ 34,920,000	\$ 1,305,000
2010 Revenue bonds	-0-	40,000,000	-0-	40,000,000	1,300,000
Loans payable	18,032,033	-0-	15,262,636	2,769,397	265,756
Capital lease obligation	5,867,417	-0-	1,074,193	4,793,224	1,219,785
	60,059,450	\$ 40,000,000	\$ 17,576,829	82,482,621	\$ 4,090,541
Unamortized loss on bond defeasance	(2,637,241)			(2,474,113)	
Unamortized bond premium	2,371,891			2,698,175	
	\$ 59,794,100			\$ 82,706,683	

Scheduled principal and interest repayments on long term debt and payments on loans payable for the years succeeding December 31, 2011 are as follows:

Year Ending December 31,	Principal	Interest	Total
2012	\$ 4,382,001	\$ 3,620,554	\$ 8,002,555
2013	4,441,809	3,431,610	7,873,419
2014	4,528,505	3,256,907	7,785,412
2015	4,391,776	3,076,031	7,467,807
2016	3,409,605	2,919,516	6,329,121
2017-2021	19,591,906	12,089,079	31,680,985
2022-2026	24,623,666	6,778,987	31,402,653
2027-2030	13,020,000	1,128,725	14,148,725
	\$ 78,389,268	\$ 36,301,409	\$ 114,690,677

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 9. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Total rent expense for all operating leases for 2011 and 2010 approximated \$4,915,000 and \$2,151,000, respectively. The following is a schedule of future minimum non-cancelable lease payments expiring through 2014 for the years succeeding December 31, 2011:

<u>Year Ending December 31,</u>	
2012	\$ 127,902
2013	86,683
2014	<u>20,202</u>
	<u>\$ 234,787</u>

### 10. PENSION PLAN

#### Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries who meet the eligibility requirements for age and hours worked. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report is available by contacting the Hospital's accounting department.

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was approximately \$1,310,000 and \$1,170,000 for 2011 and 2010, respectively.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 11. CONCENTRATION OF CREDIT RISK

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2011 and 2010 was as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Medicare	29%	31%	39%	40%
Medicaid	10%	9%	16%	15%
Commercial	36%	34%	39%	38%
Self-Pay and other	25%	26%	6%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 12. INVESTMENTS IN AFFILIATED COMPANIES

#### Witham St. Vincent Cancer Institute, LLC

The Hospital has a 33%-equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at approximately \$202,000 and \$214,000 as of December 31, 2011 and 2010, respectively.

#### Suburban Health Organization Captive

The Hospital has an equity interest in its captive insurance company, Suburban Health Organization Captive recorded on the equity method at approximately \$437,000 and \$350,000 as of December 31, 2011 and 2010, respectively.

### 13. RISK MANAGEMENT

#### Medical Benefits to Employees and Dependents

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop/loss agreement, the hospital is responsible for the funding of all claims and related administrative costs up to \$200,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were approximately \$5,980,000 and \$5,871,000 in 2011 and 2010, respectively. Changes in health claim liabilities for 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of year	\$ 1,010,864	\$ 977,228
Incurred claims and changes in estimates	5,980,044	5,870,766
Claim payments	<u>(6,162,946)</u>	<u>(5,837,130)</u>
Unpaid claims, end of year	<u>\$ 827,962</u>	<u>\$ 1,010,864</u>

**SUPPLEMENTARY INFORMATION**

# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current assets</b>						
Cash and cash equivalents	\$ 13,401,791	\$ 56,045	\$ 67,667	\$ 687,038	\$ -0-	\$ 14,212,541
Investments	22,815,133	-0-	-0-	-0-	-0-	22,815,133
Patient accounts receivable, net	20,024,264	-0-	178,616	-0-	-0-	20,202,880
Other receivables	5,351,867	12,756	-0-	-0-	-0-	5,364,623
Inventory and other current assets	4,089,978	6,465	13,827	9,290	-0-	4,119,560
Current portion of assets whose use is limited	2,840,000	-0-	-0-	-0-	-0-	2,840,000
Total current assets	68,523,033	75,266	260,110	696,328	-0-	69,554,737
<b>Assets whose use is limited</b>						
Held by trustee for debt service and capital	9,917,352	-0-	-0-	-0-	-0-	9,917,352
Designated for capital improvements	1,250,953	-0-	-0-	-0-	-0-	1,250,953
Total assets whose use is limited	11,168,305	-0-	-0-	-0-	-0-	11,168,305
Less current portion	2,840,000	-0-	-0-	-0-	-0-	2,840,000
Noncurrent assets whose use is limited	8,328,305	-0-	-0-	-0-	-0-	8,328,305
<b>Capital assets</b>						
Land and improvements	7,269,626	-0-	-0-	-0-	-0-	7,269,626
Depreciable capital assets	109,130,347	5,490,716	206,640	-0-	-0-	114,827,703
Construction in progress	41,176	-0-	-0-	-0-	-0-	41,176
	116,441,149	5,490,716	206,640	-0-	-0-	122,138,505
Less accumulated depreciation	37,861,536	1,607,538	111,586	-0-	-0-	39,580,660
Capital assets, net	78,579,613	3,883,178	95,054	-0-	-0-	82,557,845
<b>Other assets</b>						
Investment in affiliates and other	353,641	-0-	-0-	-0-	285,725	639,366
Debt issue costs, net	889,778	-0-	-0-	-0-	-0-	889,778
Other	3,699,758	-0-	-0-	-0-	(3,374,887)	324,871
Total other assets	4,943,177	-0-	-0-	-0-	(3,089,162)	1,854,015
Total assets	\$ 160,374,128	\$ 3,958,444	\$ 355,164	\$ 696,328	\$ (3,089,162)	\$ 162,294,902

See report of independent auditors on pages 1 and 2.

# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2011

LIABILITIES AND NET ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current liabilities</b>						
Accounts payable	\$ 15,884,821	\$ 2,393	\$ 32,597	\$ -0-	\$ -0-	\$ 15,919,811
Accrued salaries and related liabilities	5,617,804	-0-	10,145	-0-	-0-	5,627,949
Accrued expenses and other current liabilities	4,032,373	343,270	3,008,241	46,490	(3,374,886)	4,055,488
Estimated third-party settlements	1,209,889	-0-	-0-	-0-	-0-	1,209,889
Current portion of long term debt						
Capital lease obligation	1,263,579	-0-	-0-	-0-	-0-	1,263,579
Loans payable	45,230	233,192	-0-	-0-	-0-	278,422
Revenue bonds payable	2,840,000	-0-	-0-	-0-	-0-	2,840,000
Total current liabilities	<u>30,893,696</u>	<u>578,855</u>	<u>3,050,983</u>	<u>46,490</u>	<u>(3,374,886)</u>	<u>31,195,138</u>
<b>Long term debt, net of current portion</b>						
Capital lease obligation	2,313,765	-0-	-0-	-0-	-0-	2,313,765
Loans payable	599,169	1,619,332	-0-	-0-	-0-	2,218,501
Revenue bonds payable	69,703,800	-0-	-0-	-0-	-0-	69,703,800
Total long term debt	<u>72,616,734</u>	<u>1,619,332</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>74,236,066</u>
Total liabilities	103,510,430	2,198,187	3,050,983	46,490	(3,374,886)	105,431,204
<b>Net assets</b>						
Invested in capital assets, net of related debt	1,814,070	2,030,654	95,054	-0-	-0-	3,939,778
Designated						
Trustee held for debt service and capital	9,917,352	-0-	-0-	-0-	-0-	9,917,352
Internally designated for capital improvements	1,250,953	-0-	-0-	-0-	-0-	1,250,953
Total designated	<u>11,168,305</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,168,305</u>
Unrestricted	43,881,323	(270,397)	(2,790,873)	649,838	285,724	41,755,615
Total net assets	<u>56,863,698</u>	<u>1,760,257</u>	<u>(2,695,819)</u>	<u>649,838</u>	<u>285,724</u>	<u>56,863,698</u>
Total liabilities and net assets	<u>\$ 160,374,128</u>	<u>\$ 3,958,444</u>	<u>\$ 355,164</u>	<u>\$ 696,328</u>	<u>\$ (3,089,162)</u>	<u>\$ 162,294,902</u>

See report of independent auditors on pages 1 and 2.

## WITHAM HEALTH SERVICES

### TOTAL HOSPITAL – CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2011

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Revenue</b>						
Net patient service revenue	\$ 109,414,434	\$ -0-	\$ 1,363,817	\$ -0-	\$ -0-	\$ 110,778,251
Other operating revenue	8,265,287	690,481	495	357,020	-0-	9,313,283
Total operating revenue	117,679,721	690,481	1,364,312	357,020	-0-	120,091,534
<b>Operating expenses</b>						
Salaries and wages	32,487,391	-0-	1,171,588	-0-	-0-	33,658,979
Employee benefits	10,801,478	-0-	236,230	-0-	-0-	11,037,708
Professional medical fees	6,251,152	-0-	1,029	-0-	-0-	6,252,181
Purchased services	17,141,020	-0-	34,780	-0-	-0-	17,175,800
Supplies	13,494,327	-0-	273,408	3,273	-0-	13,771,008
Repairs and maintenance	2,880,442	109,935	6,040	-0-	-0-	2,996,417
Equipment and facility rental	4,774,873	20,484	118,916	-0-	-0-	4,914,273
Utilities	2,693,946	144,085	-0-	-0-	-0-	2,838,031
Depreciation and amortization	6,300,546	135,792	20,347	-0-	-0-	6,456,685
Insurance	872,639	8,604	116,518	-0-	-0-	997,761
Other expenses	9,610,438	88,942	23,743	324,385	-0-	10,047,508
Total operating expenses	107,308,252	507,842	2,002,599	327,658	-0-	110,146,351
Operating income (loss)	10,371,469	182,639	(638,287)	29,362	-0-	9,945,183
<b>Nonoperating income (expense)</b>						
Investment income	337,365	-0-	4	-0-	-0-	337,369
Interest expense	(3,839,739)	(49,922)	(98)	-0-	-0-	(3,889,759)
Gain on investment in affiliates	(324,964)	-0-	-0-	-0-	476,302	151,338
Other nonoperating revenue	254,790	-0-	-0-	-0-	-0-	254,790
Total nonoperating income (expenses), net	(3,572,548)	(49,922)	(94)	-0-	476,302	(3,146,262)
Change in net assets	6,798,921	132,717	(638,381)	29,362	476,302	6,798,921
<b>Net assets</b>						
Beginning of year	50,064,777	1,627,540	(2,057,438)	620,476	(190,578)	50,064,777
End of year	\$ 56,863,698	\$ 1,760,257	\$ (2,695,819)	\$ 649,838	\$ 285,724	\$ 56,863,698

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# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current assets</b>						
Cash and cash equivalents	\$ 14,061,221	\$ 155,944	\$ 163,195	631,217	\$ -0-	\$ 15,011,577
Investments	14,678,019	-0-	-0-	-0-	-0-	14,678,019
Patient accounts receivable, net	11,194,448	-0-	224,403	-0-	-0-	11,418,851
Other receivables	518,884	58,331	-0-	-0-	-0-	577,215
Inventory and other current assets	1,273,210	904	25	-0-	-0-	1,274,139
Current portion of assets whose use is limited	2,605,000	-0-	-0-	-0-	-0-	2,605,000
Total current assets	44,330,782	215,179	387,623	631,217	-0-	45,564,801
<b>Assets whose use is limited</b>						
Held by trustee for debt service and capital	9,799,800	-0-	-0-	-0-	-0-	9,799,800
Designated for capital improvements	758,897	-0-	-0-	-0-	-0-	758,897
Total assets whose use is limited	10,558,697	-0-	-0-	-0-	-0-	10,558,697
Less current portion	2,605,000	-0-	-0-	-0-	-0-	2,605,000
Noncurrent assets whose use is limited	7,953,697	-0-	-0-	-0-	-0-	7,953,697
<b>Capital assets</b>						
Land and improvements	7,018,074	-0-	-0-	-0-	-0-	7,018,074
Depreciable capital assets	107,960,673	5,015,876	192,971	-0-	-0-	113,169,520
Construction in progress	368,006	-0-	-0-	-0-	-0-	368,006
Total	115,346,753	5,015,876	192,971	-0-	-0-	120,555,600
Less accumulated depreciation	31,620,615	1,471,747	91,241	-0-	-0-	33,183,603
Capital assets, net	83,726,138	3,544,129	101,730	-0-	-0-	87,371,997
<b>Other assets</b>						
Investment in affiliates and other	755,286	-0-	-0-	-0-	(190,571)	564,715
Debt issue costs, net	949,405	-0-	-0-	-0-	-0-	949,405
Other	2,842,516	-0-	-0-	-0-	(2,499,605)	342,911
Total other assets	4,547,207	-0-	-0-	-0-	(2,690,176)	1,857,031
Total assets	<u>\$ 140,557,824</u>	<u>\$ 3,759,308</u>	<u>\$ 489,353</u>	<u>\$ 631,217</u>	<u>\$ (2,690,176)</u>	<u>\$ 142,747,526</u>

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# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2010

LIABILITIES AND NET ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current liabilities</b>						
Accounts payable	\$ 1,411,756	\$ 2,393	\$ 6,693	10,000	\$ -0-	\$ 1,430,842
Accrued salaries and related liabilities	3,619,542	-0-	41,234	-0-	-0-	3,660,776
Accrued expenses and other current liabilities	3,513,010	47,673	2,498,864	741	(2,499,598)	3,560,690
Estimated third party settlements	1,323,758	-0-	-0-	-0-	-0-	1,323,758
Current portion of long-term debt						
Capital lease obligation	1,219,785	-0-	-0-	-0-	-0-	1,219,785
Loans payable	39,391	226,365	-0-	-0-	-0-	265,756
Revenue bonds payable	2,605,000	-0-	-0-	-0-	-0-	2,605,000
Total current liabilities	<u>13,732,242</u>	<u>276,431</u>	<u>2,546,791</u>	<u>10,741</u>	<u>(2,499,598)</u>	<u>14,066,607</u>
<b>Long term debt, net of current portion</b>						
Capital lease obligation	3,573,439	-0-	-0-	-0-	-0-	3,573,439
Loans payable	648,303	1,855,337	-0-	-0-	-0-	2,503,640
Revenue bonds payable	72,539,063	-0-	-0-	-0-	-0-	72,539,063
Total long term debt	<u>76,760,805</u>	<u>1,855,337</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>78,616,142</u>
Total liabilities	<u>90,493,047</u>	<u>2,131,768</u>	<u>2,546,791</u>	<u>10,741</u>	<u>(2,499,598)</u>	<u>92,682,749</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	3,101,157	1,462,427	101,730	-0-	-0-	4,665,314
Restricted						
Trustee held for debt service and capital	9,799,800	-0-	-0-	-0-	-0-	9,799,800
Internally designated for capital improvements	758,897	-0-	-0-	-0-	-0-	758,897
Total restricted	<u>10,558,697</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>10,558,697</u>
Unrestricted	36,404,923	165,113	(2,159,168)	620,476	(190,578)	34,840,766
Total net assets	<u>50,064,777</u>	<u>1,627,540</u>	<u>(2,057,438)</u>	<u>620,476</u>	<u>(190,578)</u>	<u>50,064,777</u>
Total liabilities and net assets	<u>\$ 140,557,824</u>	<u>\$ 3,759,308</u>	<u>\$ 489,353</u>	<u>\$ 631,217</u>	<u>\$ (2,690,176)</u>	<u>\$ 142,747,526</u>

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## WITHAM HEALTH SERVICES

### TOTAL HOSPITAL – CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2010

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Revenue</b>						
Net patient service revenue	\$ 75,665,494	\$ -0-	\$ 1,115,222	\$ -0-	\$ -0-	\$ 76,780,716
Other operating revenue	5,273,374	694,446	16,702	355,020	-0-	6,339,542
Total operating revenue	80,938,868	694,446	1,131,924	355,020	-0-	83,120,258
<b>Operating expenses</b>						
Salaries and wages	30,998,495	-0-	1,444,134	-0-	-0-	32,442,629
Employee benefits	10,464,467	-0-	250,435	-0-	-0-	10,714,902
Professional medical fees	7,096,897	-0-	953	-0-	-0-	7,097,850
Purchased services	3,632,763	-0-	14,097	-0-	-0-	3,646,860
Supplies	10,648,953	-0-	208,050	5,441	-0-	10,862,444
Repairs and maintenance	2,294,242	112,160	6,745	-0-	-0-	2,413,147
Equipment and facility rental	2,002,607	20,484	127,628	-0-	-0-	2,150,719
Utilities	1,177,915	149,586	-0-	-0-	-0-	1,327,501
Depreciation and amortization	5,975,021	125,319	16,550	-0-	-0-	6,116,890
Insurance	826,257	8,024	109,408	-0-	-0-	943,689
Other expenses	1,815,956	74,116	21,000	204,384	-0-	2,115,456
Total operating expenses	76,933,573	489,689	2,199,000	209,825	-0-	79,832,087
Operating income (loss)	4,005,295	204,757	(1,067,076)	145,195	-0-	3,288,171
<b>Nonoperating income (expense)</b>						
Investment income	263,039	-0-	6	-0-	-0-	263,045
Interest expense	(3,392,257)	(54,268)	(134)	-0-	-0-	(3,446,659)
Gain on investment in affiliates	(227,390)	-0-	-0-	-0-	771,515	544,125
Other nonoperating revenue	89,565	-0-	-0-	-0-	-0-	89,565
Total nonoperating income (expenses), net	(3,267,043)	(54,268)	(128)	-0-	771,515	(2,549,924)
Change in net assets	738,252	150,489	(1,067,204)	145,195	771,515	738,247
<b>Net assets</b>						
Beginning of year	49,326,525	1,477,051	(990,234)	475,281	(962,093)	49,326,530
End of year	\$ 50,064,777	\$ 1,627,540	\$ (2,057,438)	\$ 620,476	\$ (190,578)	\$ 50,064,777

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