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June 29, 2009

Board of Directors
Witham Health Services
2605 N. Lebanon Street
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Lebanon, IN 46052-3305

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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 Witham Health Services, as of December 31, 2008, 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.

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007



WITHAM HEALTH SERVICES

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Witham Health Services
Lebanon, Indiana

We have audited the accompanying combined balance sheets of Witham Health Services (Hospital) as of December 31, 2008 and 2007 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2008 and 2007 and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis as listed in the accompanying table of contents is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Witham Health Services
Lebanon, Indiana

Our audits were made for the purposes of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

May 27, 2009

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2008 AND 2007

This section of Witham Health Services' (the Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's combined financial performance during the year ended December 31, 2008. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased approximately \$2,343,000 or 5% in 2008.
- The Hospital reported an operating income in excess of \$3,099,000 for the year 2008, representing a decrease of approximately \$6,301,000 in comparison to the year 2007 results.
- Total operating revenue increased by \$3,272,000 in 2008 compared to 2007.

USING THIS ANNUAL REPORT

The Hospital's combined 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 combined activities and the financial position of the Hospital.

The combined 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 combined statement of revenues, expenses and changes in net assets.

Finally, the combined 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.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2008 AND 2007

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the combined balance sheet. The Hospital's net assets increased by \$2,343,000 in 2008 compared to 2007.

Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets	\$ 36,882,584	\$ 37,115,179
Assets whose use is limited	5,442,804	5,364,441
Capital assets, net	61,697,135	50,469,247
Other assets	2,487,502	1,112,062
Total assets	<u>\$ 106,510,025</u>	<u>\$ 94,060,929</u>
LIABILITIES		
Current liabilities	\$ 13,060,982	\$ 9,011,696
Long-term debt	45,714,090	39,656,949
Total liabilities	<u>58,775,072</u>	<u>48,668,645</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,183,262	9,469,595
Restricted		
Trustee held for debt service and capital	5,038,534	5,224,345
Internally designated for capital improvements	1,025,571	538,852
Temporarily restricted	568,699	1,694,301
Total restricted	<u>6,632,804</u>	<u>7,457,498</u>
Unrestricted	<u>28,918,887</u>	<u>28,465,191</u>
Total net assets	<u>47,734,953</u>	<u>45,392,284</u>
Total liabilities and net assets	<u>\$ 106,510,025</u>	<u>\$ 94,060,929</u>

Components of the change in the Hospital's assets included the increase in capital assets related to the construction of the new Medical Office Building.

Long-term debt increased approximately \$6,057,000 compared to 2008 due mainly to borrowings for new capital projects.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2008 AND 2007

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2008, the Hospital's net assets increased by \$2,343,000, as shown below. This increase is made up of different components, which will be discussed in the following paragraphs.

Operating Results and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Revenues		
Net patient service revenue	\$ 65,338,149	\$ 63,343,330
Other operating revenue	5,758,850	4,481,216
Total revenues	<u>71,096,999</u>	<u>67,824,546</u>
Expenses		
Salaries and benefits	38,935,703	32,163,779
Supplies	8,716,740	8,484,458
Depreciation and amortization	3,244,046	3,058,944
Other operating expenses	17,100,977	14,716,584
Total expenses	<u>67,997,466</u>	<u>58,423,765</u>
Operating income	3,099,533	9,400,781
Non-operating expenses, net	<u>(756,864)</u>	<u>(769,887)</u>
Change in net assets	2,342,669	8,630,894
Net assets beginning of year	45,392,284	36,761,390
Net assets end of year	<u>\$ 47,734,953</u>	<u>\$ 45,392,284</u>

OPERATING INCOME

The main component of the overall change in the Hospital's net assets is its operating income. In 2007, the Hospital reported an operating income of \$9,400,000. However, in 2008 the Hospital reported an operating income of \$3,099,000, which is a \$6,301,000 decrease from 2007. The primary reason for the decrease in operating income was Medicaid DSH and UPL funds recorded in 2008 were approximately \$900,000 compared to approximately \$5,000,000 in 2007. This limited the increase of \$3,272,000 in operating revenue which was offset by an increase of \$9,573,000 in operating expenses. .

Salary and benefit expense contributed most significantly to the operating expense increase.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2008 AND 2007

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of investment income (loss), interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of \$770,000 in 2007 to a net expense of \$757,000 in 2008.

SOURCES OF REVENUE

During 2008, 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 51% of the Hospital's gross revenues in 2008 and 2007.

Following is a table of major sources of gross patient revenues for 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Medicare	39%	39%
Medicaid	12%	12%
Commercial	41%	42%
Self Pay	8%	7%
	<u>100%</u>	<u>100%</u>

CAPITAL ASSETS

At the end of 2008, the Hospital had \$61,697,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 4,650,298	\$ 3,840,697
Buildings and improvements	42,829,474	41,684,304
Equipment	24,801,751	22,493,135
Construction in progress	14,111,224	3,955,805
Total property and equipment	<u>86,392,747</u>	<u>71,973,941</u>
Less accumulated depreciation	<u>24,695,612</u>	<u>21,504,694</u>
Capital assets, net	<u>\$ 61,697,135</u>	<u>\$ 50,469,247</u>

Net capital assets increased by \$11,228,000 compared to 2007.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2008 AND 2007

DEBT

The Hospital's debt consists of loans payable as well as the 2005 Revenue bonds. More detailed information about the Hospital's long term debt is presented in the notes to the combined financial statements.

ECONOMIC OUTLOOK

Management believes that the impact of declining reimbursement, increasing competition, nursing shortages, budget constraints, increased number of uninsured and under insured patients and healthcare financing reform are the challenges we are going to face in the future. These challenges will continue to put a burden on the Hospital's operating margins. The pressure facing the Hospital is to become an agent of change and adapt our healthcare ministries to ensure they are able to meet the ever-growing needs of the communities we serve and to lead with such courage and conviction that we radically transform healthcare so all patients will have access to the high quality affordable healthcare they deserve.

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

COMBINED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

	ASSETS				
	2008			2007	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 10,638,343	\$ 1,969,830	\$ -0-	\$ 12,608,173	\$ 13,288,925
Investments	12,203,848	138,757	-0-	12,342,605	9,486,648
Patient accounts receivable, less allowance for uncollectible accounts of \$3,828,000 in 2008 and \$3,142,000 in 2007	8,608,412	-0-	-0-	8,608,412	7,996,884
Other receivables	793,119	141,360	-0-	934,479	969,905
Estimated third-party settlements	-0-	-0-	-0-	-0-	3,026,581
Inventory and other current assets	1,155,477	299,956	(256,518)	1,198,915	1,196,236
Current portion of assets whose use is limited	1,190,000	-0-	-0-	1,190,000	1,150,000
Total current assets	<u>34,589,199</u>	<u>2,549,903</u>	<u>(256,518)</u>	<u>36,882,584</u>	<u>37,115,179</u>
Assets whose use is limited					
Held by trustee for debt service and capital	5,038,534	-0-	-0-	5,038,534	5,224,345
Designated for capital improvements	1,025,571	568,699	-0-	1,594,270	1,290,096
Total assets whose use is limited	<u>6,064,105</u>	<u>568,699</u>	<u>-0-</u>	<u>6,632,804</u>	<u>6,514,441</u>
Less current portion	1,190,000	-0-	-0-	1,190,000	1,150,000
Noncurrent assets whose use is limited	<u>4,874,105</u>	<u>568,699</u>	<u>-0-</u>	<u>5,442,804</u>	<u>5,364,441</u>
Capital assets					
Land and improvements	4,650,298	-0-	-0-	4,650,298	3,840,697
Construction in progress	14,111,224	-0-	-0-	14,111,224	3,955,805
Depreciable capital assets	67,631,225	-0-	-0-	67,631,225	64,177,439
	<u>86,392,747</u>	<u>-0-</u>	<u>-0-</u>	<u>86,392,747</u>	<u>71,973,941</u>
Less accumulated depreciation	24,695,612	-0-	-0-	24,695,612	21,504,694
Capital assets, net	<u>61,697,135</u>	<u>-0-</u>	<u>-0-</u>	<u>61,697,135</u>	<u>50,469,247</u>
Other assets					
Investment in affiliates	1,714,334	-0-	-0-	1,714,334	258,416
Bond issue costs, net of accumulated amortization of \$77,000 in 2008 and \$55,000 in 2007	419,527	-0-	-0-	419,527	437,048
Other	353,641	-0-	-0-	353,641	416,598
Total other assets	<u>2,487,502</u>	<u>-0-</u>	<u>-0-</u>	<u>2,487,502</u>	<u>1,112,062</u>
Total assets	<u>\$ 103,647,941</u>	<u>\$ 3,118,602</u>	<u>\$ (256,518)</u>	<u>\$ 106,510,025</u>	<u>\$ 94,060,929</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008			2007	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Accounts payable	\$ 2,252,771	\$ 2,754	\$ -0-	\$ 2,255,525	\$ 2,459,814
Accrued salaries and related liabilities	2,767,334	-0-	-0-	2,767,334	2,146,273
Accrued expenses and other current liabilities	3,260,746	-0-	-0-	3,260,746	3,062,906
Estimated third-party settlements	977,594	-0-	-0-	977,594	-0-
Current portion of long term debt					
Loans payable	2,866,301	-0-	(256,518)	2,609,783	192,703
Revenue bonds payable	1,190,000	-0-	-0-	1,190,000	1,150,000
Total current liabilities	<u>13,314,746</u>	<u>2,754</u>	<u>(256,518)</u>	<u>13,060,982</u>	<u>9,011,696</u>
Long term debt, net of current portion					
Loans payable	9,848,310	-0-	-0-	9,848,310	2,630,039
Revenue bonds payable	35,865,780	-0-	-0-	35,865,780	37,026,910
Total long term debt	<u>45,714,090</u>	<u>-0-</u>	<u>-0-</u>	<u>45,714,090</u>	<u>39,656,949</u>
Total liabilities	59,028,836	2,754	(256,518)	58,775,072	48,668,645
Net assets					
Invested in capital assets, net of related debt	11,926,744	-0-	256,518	12,183,262	9,469,595
Restricted					
Trustee held for debt service and capital	5,038,534	-0-	-0-	5,038,534	5,224,345
Internally designated for capital improvements	1,025,571	-0-	-0-	1,025,571	538,852
Temporarily restricted	-0-	568,699	-0-	568,699	1,694,301
Total restricted	<u>6,064,105</u>	<u>568,699</u>	<u>-0-</u>	<u>6,632,804</u>	<u>7,457,498</u>
Unrestricted	<u>26,628,256</u>	<u>2,547,149</u>	<u>(256,518)</u>	<u>28,918,887</u>	<u>28,465,191</u>
Total net assets	<u>44,619,105</u>	<u>3,115,848</u>	<u>-0-</u>	<u>47,734,953</u>	<u>45,392,284</u>
Total liabilities and net assets	<u>\$ 103,647,941</u>	<u>\$ 3,118,602</u>	<u>\$ (256,518)</u>	<u>\$ 106,510,025</u>	<u>\$ 94,060,929</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 65,338,149	\$ -0-	\$ -0-	\$ 65,338,149	\$ 63,343,330
Other operating revenue	5,758,850	-0-	-0-	5,758,850	4,481,216
Total operating revenue	71,096,999	-0-	-0-	71,096,999	67,824,546
Operating expenses					
Salaries and wages	29,359,581	-0-	-0-	29,359,581	24,828,984
Employee benefits	9,576,122	-0-	-0-	9,576,122	7,334,795
Professional medical fees	4,905,345	-0-	-0-	4,905,345	4,134,175
Purchased services	3,666,422	-0-	-0-	3,666,422	3,017,969
Supplies	8,716,740	-0-	-0-	8,716,740	8,484,458
Repairs and maintenance	1,714,171	-0-	-0-	1,714,171	1,464,216
Equipment rental	2,318,189	-0-	-0-	2,318,189	2,443,339
Utilities	1,092,991	-0-	-0-	1,092,991	957,909
Depreciation and amortization	3,244,046	-0-	-0-	3,244,046	3,058,944
Insurance	851,393	-0-	-0-	851,393	701,700
Other expenses	2,552,466	-0-	-0-	2,552,466	1,997,276
Total operating expenses	67,997,466	-0-	-0-	67,997,466	58,423,765
Operating income	3,099,533	-0-	-0-	3,099,533	9,400,781
Nonoperating revenue (expense)					
Investment income (loss)	907,724	(89,251)	(21,509)	796,964	1,486,855
Interest expense	(2,262,613)	-0-	21,509	(2,241,104)	(2,333,497)
Foundation revenue	-0-	241,649	-0-	241,649	244,104
Foundation expense	-0-	(159,490)	-0-	(159,490)	(150,363)
Gain (loss) on investment in affiliates	461,944	-0-	-0-	461,944	(156,975)
Other nonoperating revenue	143,173	-0-	-0-	143,173	139,989
Total nonoperating revenue (expense), net	(749,772)	(7,092)	-0-	(756,864)	(769,887)
Change in net assets	2,349,761	(7,092)	-0-	2,342,669	8,630,894
Net assets					
Beginning of year	42,269,344	3,122,940	-0-	45,392,284	36,761,390
End of year	\$ 44,619,105	\$ 3,115,848	\$ -0-	\$ 47,734,953	\$ 45,392,284

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 68,730,796		\$ -0-	\$ 68,730,796	\$ 61,121,516
Cash paid for salaries, wages and benefits	(38,314,642)		-0-	(38,314,642)	(32,312,334)
Cash paid to vendors and suppliers	(25,818,035)		-0-	(25,818,035)	(22,140,957)
Other receipts, net	5,758,850	(229,902)	256,518	5,785,466	4,709,470
Net cash flows from operating activities	10,356,969	(229,902)	256,518	10,383,585	11,377,695
Capital and related financing activities					
Acquisition and construction of capital assets	(14,649,876)	-0-	-0-	(14,649,876)	(6,964,690)
Interest on long-term debt	(2,262,613)	-0-	21,509	(2,241,104)	(2,333,497)
Proceeds from long-term debt	10,408,060	-0-	(256,518)	10,151,542	-0-
Principal payments for long-term debt	(1,666,190)	-0-	-0-	(1,666,190)	(1,313,616)
Net cash flows from capital and related financing activities	(8,170,619)	-0-	(235,009)	(8,405,628)	(10,611,803)
Investing activities					
Investment income (loss)	907,724	(89,251)	(21,509)	796,964	1,484,920
Change in Investment in affiliated companies	(1,455,918)	-0-	-0-	(1,455,918)	(137,882)
Other changes in investments and assets whose use is limited	(1,875,580)	261,827	-0-	(1,613,753)	2,776,144
Net cash flows from investing activities	(2,423,774)	172,576	(21,509)	(2,272,707)	4,123,182
Net change in cash and cash equivalents	(237,424)	(57,326)	-0-	(294,750)	4,889,074
Cash and cash equivalents					
Beginning of year	17,915,915	2,027,156	-0-	19,943,071	15,053,997
End of year	<u>\$ 17,678,491</u>	<u>\$ 1,969,830</u>	<u>\$ -0-</u>	<u>\$ 19,648,321</u>	<u>\$ 19,943,071</u>
Reconciliation of cash and cash equivalents to the combined balance sheets					
Cash and cash equivalents					
In current assets	\$ 10,638,343	\$ 1,969,830	\$ -0-	\$ 12,608,173	\$ 13,288,925
In investments	976,043	-0-	-0-	976,043	890,949
In assets whose use is limited - held by trustee	5,038,534	-0-	-0-	5,038,534	5,224,345
In assets whose use is limited - designated	1,025,571	-0-	-0-	1,025,571	538,852
Total cash and cash equivalents	<u>\$ 17,678,491</u>	<u>\$ 1,969,830</u>	<u>\$ -0-</u>	<u>\$ 19,648,321</u>	<u>\$ 19,943,071</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ 3,099,533	\$ -0-	\$ -0-	\$ 3,099,533	\$ 9,400,782
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	3,244,046	-0-	-0-	3,244,046	3,058,944
Bad debts	8,167,449	-0-	-0-	8,167,449	6,429,648
Changes in operating assets and liabilities					
Patient accounts receivable	(8,778,977)	-0-	-0-	(8,778,977)	(6,405,435)
Other receivables	(10,257)	45,683	-0-	35,426	502,649
Inventory and other current assets	17,451	(276,648)	256,518	(2,679)	(388,719)
Accounts payable	(205,352)	1,063	-0-	(204,289)	789,868
Accrued salaries and related liabilities	621,061	-0-	-0-	621,061	(148,555)
Accrued expenses and other current liabilities	197,840	-0-	-0-	197,840	384,540
Estimated third-party settlements	4,004,175	-0-	-0-	4,004,175	(2,246,027)
Net cash flows from operating activities	<u>\$ 10,356,969</u>	<u>\$ (229,902)</u>	<u>\$ 256,518</u>	<u>\$ 10,383,585</u>	<u>\$ 11,377,695</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 16-22. The Hospital provides short-term inpatient and outpatient health care. 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 Witham Memorial Hospital Association. The Association was created pursuant to the provisions of the Indiana Code 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.

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

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 combined 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.

Use of Estimates

The preparation of combined 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 combined 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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 fair 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.

Mutual funds are reported at fair value based on the fund's market price. Money market investments that mature within one year or less at the date of their acquisition are reported at fair value. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating income in the combined statements of revenues, expense and changes in net assets.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2008. Amounts for unresolved cost reports for 2007 through 2008 are reflected in estimated third-party settlements on the combined balance sheets. During 2008 and 2007, the Hospital recognized the differences between original estimates and subsequent revisions for the final settlement of cost reports in its combined statements of revenues, expenses and changes in net assets.

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.

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 nonoperating 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.

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 combined financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, 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 combined statements of revenues, expenses and changes in net assets.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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.

Combined Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's combined statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating 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 nonoperating gains or losses.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Combined Statements of Cash Flows

For purposes of the combined 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. Additional cash flows information is as follows:

	<u>2008</u>	<u>2007</u>
Supplemental cash flows information		
Cash paid for interest	\$ 2,154,865	\$ 2,148,528
Property and equipment in payables	\$ 1,019,993	\$ 597,366

Interest expense capitalized during 2008 and 2007 was approximately \$128,000 and \$-0-, respectively.

Costs of Borrowing

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

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$420,000 and 437,000 as of December 31, 2008 and 2007, respectively. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2008 and 2007 was \$77,000 and \$55,000, respectively. Bond issue costs are recorded in other assets on the combined balance sheets.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value.

The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2008 and 2007, the carrying value of the Hospital's long-term debt approximated its fair value.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax position. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Hospital elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

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 combined 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. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Captive, 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.

Physician Guarantees

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. As of December 31, 2008 and 2007, the Hospital had not entered or modified physician revenue guarantee agreements.

Litigation

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

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$1,193,162 and \$1,331,384 for 2008 and 2007, respectively.

Reclassifications

Certain amounts from the 2007 combined financial statements have been reclassified to conform to the current year presentation.

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:

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.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 \$897,000 and \$4,954,000 during 2008 and 2007, 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.

The following is a summary of net patient service revenue for 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Inpatient routine services	\$ 10,550,557	\$ 9,564,841
Inpatient ancillary services	23,510,797	22,979,523
Outpatient ancillary services	<u>130,344,057</u>	<u>108,267,787</u>
Gross patient service revenue	164,405,411	140,812,151
Contractual allowances	87,804,178	69,615,574
Charity care	3,062,747	1,423,599
Bad debts	<u>8,200,337</u>	<u>6,429,648</u>
Deductions from revenue	<u>99,067,262</u>	<u>77,468,821</u>
Net patient service revenue	<u><u>\$ 65,338,149</u></u>	<u><u>\$ 63,343,330</u></u>

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care provided during 2008 and 2007 was \$3,062,747 and \$1,423,599, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

4. FAIR VALUE OF FINANCIAL INSTRUMENTS.

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits companies to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the changes in net assets and financial position.

Fair values of financial instruments as of December 31, 2008 are as follows:

	Fair value measurements at reporting date using			
	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments				
Certificates of deposit *	\$ 138,757	\$ -0-	\$ 138,757	\$ -0-
US Government securities	11,227,805	-0-	11,227,805	-0-
	<u>\$ 11,366,562</u>	<u>\$ -0-</u>	<u>\$ 11,366,562</u>	<u>\$ -0-</u>
Assets whose use is limited				
Mutual funds	\$ 324,835	\$ 324,835	\$ -0-	\$ -0-
Corporate equity securities *	10,674	10,674	-0-	-0-
Corporate debt securities *	233,190	-0-	233,190	-0-
	<u>\$ 568,699</u>	<u>\$ 335,509</u>	<u>\$ 233,190</u>	<u>\$ -0-</u>

* held by Foundation

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

5. INVESTMENTS

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

	2008	2007
Cash and cash equivalents	\$ 976,043	\$ 890,949
Certificates of deposit	138,757	135,880
US Government securities	11,227,805	8,459,819
	\$ 12,342,605	\$ 9,486,648

6. ASSETS WHOSE USE IS LIMITED

Held by Trustee – Hospital Association funds 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 and for capital improvements.

Designated for Capital Improvements – Amounts designed for capital improvements.

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:

	2008	2007
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 5,038,534	\$ 5,224,345
Designated for capital improvements		
Cash and cash equivalents	1,025,571	538,852
Mutual funds	324,835	452,596
Corporate equity securities *	10,674	11,230
Corporate debt securities *	233,190	287,418
Total designated for capital improvements	1,594,270	1,290,096
Total assets whose use is limited	\$ 6,632,804	\$ 6,514,441

* held by Foundation

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

7. 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. Funded depreciation investments consist of cash equivalents and US Government securities. Market value approximated cost as of December 31, 2008 and 2007.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2008 and 2007, 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, 2008

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 11,227,805	\$ 4,096,241	\$ 7,131,564	\$ -0-	\$ -0-
Certificates of deposit	138,757	138,757	-0-	-0-	-0-
Mutual funds	324,835	324,835	-0-	-0-	-0-
Corporate equity securities	10,674	10,674	-0-	-0-	-0-
Corporate debt	233,190	233,190	-0-	-0-	-0-
	<u>\$ 11,935,261</u>	<u>\$ 4,803,697</u>	<u>\$ 7,131,564</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2007

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 8,459,819	\$ 2,969,056	\$ 5,490,763	\$ -0-	\$ -0-
Certificates of deposit	135,880	135,880	-0-	-0-	-0-
Mutual funds	452,596	452,596	-0-	-0-	-0-
Corporate equity securities	11,230	11,230	-0-	-0-	-0-
Corporate debt	287,418	287,418	-0-	-0-	-0-
	<u>\$ 9,346,943</u>	<u>\$ 3,856,180</u>	<u>\$ 5,490,763</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Corporate equity and debt securities are held by the Foundation.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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.

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

	<u>2008</u>	<u>2007</u>
Carrying amount		
Deposits	\$ 19,648,321	\$ 19,943,071
Investments	11,935,261	9,346,943
	<u>\$ 31,583,582</u>	<u>\$ 29,290,014</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 12,608,173	\$ 13,288,925
Investments	12,342,605	9,486,648
Held by trustee	5,038,534	5,224,345
Designated	1,594,270	1,290,096
	<u>\$ 31,583,582</u>	<u>\$ 29,290,014</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

8. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2008 and 2007 follow:

	December 31 2007	Additions	Retirements & Transfers	December 31 2008
Land and improvements	\$ 3,840,697	\$ 320,560	\$ 489,041	\$ 4,650,298
Buildings and improvements	41,684,304	11,425	1,133,745	42,829,474
Equipment	22,493,135	1,740,106	568,510	24,801,751
Construction in progress	3,955,805	12,577,785	(2,422,366)	14,111,224
Total capital assets	71,973,941	14,649,876	(231,070)	86,392,747
Less accumulated depreciation				
Land improvements	599,813	92,480	-0-	692,293
Buildings and improvements	6,978,321	1,197,256	-0-	8,175,577
Equipment	13,926,560	1,954,310	(53,128)	15,827,742
Total accumulated depreciation	21,504,694	3,244,046	(53,128)	24,695,612
Capital assets, net	\$ 50,469,247	\$ 11,405,830	\$ (177,942)	\$ 61,697,135
	December 31 2006	Additions	Retirements & Transfers	December 31 2007
Land	\$ 2,267,214	\$ 1,400,233	\$ 173,250	\$ 3,840,697
Buildings and improvements	41,543,691	135,749	4,864	41,684,304
Equipment	19,659,033	2,250,027	584,075	22,493,135
Construction in progress	1,019,815	3,776,047	(840,057)	3,955,805
Total capital assets	64,489,753	7,562,056	(77,868)	71,973,941
Less accumulated depreciation				
Land improvements	545,108	54,705	-0-	599,813
Buildings and improvements	5,879,525	1,098,796	-0-	6,978,321
Equipment	12,095,099	1,905,443	(73,982)	13,926,560
Total accumulated depreciation	18,519,732	3,058,944	(73,982)	21,504,694
Capital assets, net	\$ 45,970,021	\$ 4,503,112	\$ (3,886)	\$ 50,469,247

Depreciation and amortization expense for 2008 and 2007 was \$3,244,046 and \$3,058,944, respectively.

Remaining construction commitments as of December 31, 2008 were approximately \$9,000,000.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

9. LONG TERM DEBT

A summary of long term debt as of December 31, 2008 is as follows:

- 2005 Revenue bonds; with annual principal payments ranging from \$1,190,000 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.
- Loans payable with local financial institutions, due in monthly installments through 2034 at interest rates ranging from 2.00% to 6.75%, due through 2034, secured by real property.
- Included in loans payable is a construction term loan entered into during 2008. Outstanding borrowings as of December 31, 2008 were approximately \$9,108,000. The construction term loan bears interest at LIBOR plus 1.10% (approximately 2% as of December 31, 2008) and is secured real property. Once the project is complete, the loan will be amortized over 25 years.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2008, the Hospital believed it was in compliance with the ratios.

A portion of the 2005 bond issue was used to retire a previous bond issue. The defeasance of the previous bonds resulted in a loss of approximately \$3,400,000 in 2005, which is amortized through 2026 as a component of interest expense.

The following represents a progression for long term debt for 2008 and 2007:

	December 31 2007	Additional Borrowings	Payments	December 31 2008	Current Portion
2005 Revenue bonds	\$ 38,500,000	\$ -0-	\$ 1,150,000	\$ 37,350,000	\$ 1,190,000
Loans payable	2,830,574	10,408,060	516,190	12,722,444	2,609,783
	41,330,574	\$ 10,408,060	\$ 1,666,190	50,072,444	\$ 3,799,783
Unamortized loss on bond defeasance	(2,971,329)			(2,800,369)	
Unamortized bond premium	2,640,407			2,506,149	
	\$ 40,999,652			\$ 49,778,224	

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

	December 31 2006	Additional Borrowings	Payments	December 31 2007	Current Portion
2005 Revenue bonds	\$ 39,610,000	\$ -0-	\$ 1,110,000	\$ 38,500,000	\$ 1,150,000
Loans payable	3,034,190	-0-	203,616	2,830,574	192,703
	42,644,190	\$ -0-	\$ 1,313,616	41,330,574	\$ 1,342,703
Unamortized loss on bond defeasance	(3,126,625)			(2,971,329)	
Unamortized bond premium	2,774,666			2,640,407	
	\$ 42,292,231			\$ 40,999,652	

Scheduled principal and interest repayments on long term debt and payments on loans payable for the years succeeding December 31, 2008 are as follows:

Year Ending December 31,	Principal	Interest	Total
2009	\$ 4,056,301	\$ 2,271,983	\$ 6,328,284
2010	1,576,245	2,074,405	3,650,650
2011	1,637,713	1,999,844	3,637,557
2012	1,720,487	1,919,339	3,639,826
2013	1,808,638	1,834,196	3,642,834
2014-2018	10,427,090	7,760,784	18,187,874
2019-2023	13,137,315	4,998,596	18,135,911
2024-2028	13,091,478	1,631,674	14,723,152
2029-2034	2,617,177	162,347	2,779,524
	\$ 50,072,444	\$ 24,653,168	\$ 74,725,612

10. 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 2008 and 2007 was \$2,318,189 and \$2,443,339, respectively. The following is a schedule of future minimum lease payments for leases expiring through 2011 for the years succeeding December 31, 2008:

Year Ending December 31,	
2009	\$ 166,000
2010	36,000
2011	2,500
	\$ 204,500

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

11. 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. 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 \$1,163,057 and \$897,436 for 2008 and 2007, respectively.

12. 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 from patients and third-party payors for 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	42%	33%
Medicaid	10%	10%
Commercial	25%	34%
Self-Pay and other	23%	23%
	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

13. INVESTMENTS IN AFFILIATED COMPANIES

Bremner Duke Anson Development, LLC

During 2008, the Hospital entered into a joint venture for a 40% equity interest in the Bremner Duke Anson Development, LLC. The investment is recorded on the equity method at \$1,209,350 as of December 31, 2008.

Witham St. Vincent Cancer Institute, LLC

The Hospital has a 33 1/3% equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at \$232,797 and \$255,002 as of December 31, 2008 and 2007, respectively.

Eye Institute, LLC

The Hospital has a 24% equity interest in the Eye Institute, LLC. The investment is recorded on the equity method at \$3,199 and \$3,413 as of December 31, 2008 and 2007, respectively.

Suburban Health Organization Captive

The Hospital has an equity interest in its captive insurance company, Suburban Health Organization Captive recorded at \$268,987 and \$-0- as of December 31, 2008 and 2007, respectively.

14. 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 \$135,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement. Provisions are also made for unexpected and unusual claims.

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 \$5,280,187 and \$3,910,924 in 2008 and 2007, respectively.

SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2008

ASSETS						
	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current assets						
Cash and cash equivalents	\$ 10,254,867	\$ 39,013	\$ 144,225	\$ 200,238	\$ -0-	\$ 10,638,343
Investments	12,203,848	-0-	-0-	-0-	-0-	12,203,848
Patient accounts receivable, net	8,442,806	-0-	165,606	-0-	-0-	8,608,412
Other receivables	784,301	8,818	-0-	-0-	-0-	793,119
Inventory and other current assets	1,128,526	5,471	21,480	-0-	-0-	1,155,477
Current portion of assets whose use is limited	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Total current assets	<u>34,004,348</u>	<u>53,302</u>	<u>331,311</u>	<u>200,238</u>	<u>-0-</u>	<u>34,589,199</u>
Assets whose use is limited						
Held by trustee for debt service and capital	5,038,534	-0-	-0-	-0-	-0-	5,038,534
Designated for capital improvements	1,025,571	-0-	-0-	-0-	-0-	1,025,571
Total assets whose use is limited	<u>6,064,105</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,064,105</u>
Less current portion	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Noncurrent assets whose use is limited	<u>4,874,105</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,874,105</u>
Capital assets						
Land and improvements	4,650,298	-0-	-0-	-0-	-0-	4,650,298
Construction in progress	14,111,224	-0-	-0-	-0-	-0-	14,111,224
Depreciable capital assets	62,533,959	4,998,536	98,730	-0-	-0-	67,631,225
	81,295,481	4,998,536	98,730	-0-	-0-	86,392,747
Less accumulated depreciation	23,417,695	1,216,709	61,208	-0-	-0-	24,695,612
Capital assets, net	<u>57,877,786</u>	<u>3,781,827</u>	<u>37,522</u>	<u>-0-</u>	<u>-0-</u>	<u>61,697,135</u>
Other assets						
Investment in affiliates	2,990,359	-0-	-0-	-0-	(1,276,025)	1,714,334
Bond issue costs, net	419,527	-0-	-0-	-0-	-0-	419,527
Other	826,997	-0-	-0-	29,585	(502,941)	353,641
Total other assets	<u>4,236,883</u>	<u>-0-</u>	<u>-0-</u>	<u>29,585</u>	<u>(1,778,966)</u>	<u>2,487,502</u>
Total assets	<u>\$ 100,993,122</u>	<u>\$ 3,835,129</u>	<u>\$ 368,833</u>	<u>\$ 229,823</u>	<u>\$ (1,778,966)</u>	<u>\$ 103,647,941</u>

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2008

LIABILITIES AND NET ASSETS

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current liabilities						
Accounts payable	\$ 2,226,002	\$ 4,843	\$ 21,926	\$ -0-	\$ -0-	\$ 2,252,771
Accrued salaries and related liabilities	2,726,198	-0-	41,136	-0-	-0-	2,767,334
Accrued expenses and other current liabilities	3,179,346	111,263	473,078	-0-	(502,941)	3,260,746
Estimated third-party settlements	977,594	-0-	-0-	-0-	-0-	977,594
Current portion of long term debt						
Loans payable	360,790	2,505,511	-0-	-0-	-0-	2,866,301
Revenue bonds payable	1,190,000	-0-	-0-	-0-	-0-	1,190,000
Total current liabilities	10,659,930	2,621,617	536,140	-0-	(502,941)	13,314,746
Long term debt, net of current portion						
Loans payable	9,848,310	-0-	-0-	-0-	-0-	9,848,310
Revenue bonds payable	35,865,780	-0-	-0-	-0-	-0-	35,865,780
Total long term debt	45,714,090	-0-	-0-	-0-	-0-	45,714,090
Total liabilities	56,374,020	2,621,617	536,140	-0-	(502,941)	59,028,836
Net assets						
Invested in capital assets, net of related debt	10,612,906	1,276,316	37,522	-0-	-0-	11,926,744
Restricted						
Trustee held for debt service and capital	5,038,534	-0-	-0-	-0-	-0-	5,038,534
Internally designated for capital improvements	1,025,571	-0-	-0-	-0-	-0-	1,025,571
Total restricted	6,064,105	-0-	-0-	-0-	-0-	6,064,105
Unrestricted	27,942,091	(62,804)	(204,829)	229,823	(1,276,025)	26,628,256
Total net assets	44,619,102	1,213,512	(167,307)	229,823	(1,276,025)	44,619,105
Total liabilities and net assets	\$ 100,993,122	\$ 3,835,129	\$ 368,833	\$ 229,823	\$ (1,778,966)	\$ 103,647,941

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Revenue						
Net patient service revenue	\$ 64,271,265	\$ -0-	\$ 1,066,884	\$ -0-	\$ -0-	\$ 65,338,149
Other operating revenue	4,613,111	791,970	(1,251)	355,020	-0-	5,758,850
Total operating revenue	<u>68,884,376</u>	<u>791,970</u>	<u>1,065,633</u>	<u>355,020</u>	<u>-0-</u>	<u>71,096,999</u>
Operating expenses						
Salaries and wages	28,537,012	-0-	822,569	-0-	-0-	29,359,581
Employee benefits	9,442,508	-0-	133,614	-0-	-0-	9,576,122
Professional medical fees	4,905,345	-0-	-0-	-0-	-0-	4,905,345
Purchased services	3,659,198	-0-	7,224	-0-	-0-	3,666,422
Supplies	8,567,553	-0-	143,533	5,654	-0-	8,716,740
Repairs and maintenance	1,658,528	48,838	6,805	-0-	-0-	1,714,171
Equipment rental	2,215,522	20,484	82,183	-0-	-0-	2,318,189
Utilities	951,924	141,067	-0-	-0-	-0-	1,092,991
Depreciation and amortization	3,108,301	129,169	6,576	-0-	-0-	3,244,046
Insurance	782,911	7,607	60,875	-0-	-0-	851,393
Other expenses	2,176,261	228,002	28,660	119,543	-0-	2,552,466
Total operating expenses	<u>66,005,063</u>	<u>575,167</u>	<u>1,292,039</u>	<u>125,197</u>	<u>-0-</u>	<u>67,997,466</u>
Operating income (loss)	2,879,313	216,803	(226,406)	229,823	-0-	3,099,533
Nonoperating income (expense)						
Investment income	907,707	-0-	17	-0-	-0-	907,724
Interest expense	(2,154,865)	(107,528)	(220)	-0-	-0-	(2,262,613)
Gain/(loss) on investment in affiliates	574,430	-0-	-0-	-0-	(112,486)	461,944
Other nonoperating revenue	143,173	-0-	-0-	-0-	-0-	143,173
Total nonoperating income (expenses), net	<u>(529,555)</u>	<u>(107,528)</u>	<u>(203)</u>	<u>-0-</u>	<u>(112,486)</u>	<u>(749,772)</u>
Change in net assets	2,349,758	109,275	(226,609)	229,823	(112,486)	2,349,761
Net assets						
Beginning of year	42,269,344	1,104,237	59,302	-0-	(1,163,539)	42,269,344
End of year	<u>\$ 44,619,102</u>	<u>\$ 1,213,512</u>	<u>\$ (167,307)</u>	<u>\$ 229,823</u>	<u>\$ (1,276,025)</u>	<u>\$ 44,619,105</u>

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2007

ASSETS

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current assets					
Cash and cash equivalents	\$ 11,049,283	\$ 114,524	\$ 97,962	\$ -0-	\$ 11,261,769
Investments	9,350,768	-0-	-0-	-0-	9,350,768
Patient accounts receivable, net	7,912,834	-0-	84,050	-0-	7,996,884
Other receivables	780,836	2,026	-0-	-0-	782,862
Estimated third-party settlements	3,026,581	-0-	-0-	-0-	3,026,581
Inventory and other current assets	1,144,498	5,784	22,646	-0-	1,172,928
Current portion of assets whose use is limited	1,150,000	-0-	-0-	-0-	1,150,000
Total current assets	34,414,800	122,334	204,658	-0-	34,741,792
Assets whose use is limited					
Held by trustee for debt service and capital	5,224,345	-0-	-0-	-0-	5,224,345
Designated for capital improvements	538,852	-0-	-0-	-0-	538,852
Total assets whose use is limited	5,763,197	-0-	-0-	-0-	5,763,197
Less current portion	1,150,000	-0-	-0-	-0-	1,150,000
Noncurrent assets whose use is limited	4,613,197	-0-	-0-	-0-	4,613,197
Capital assets					
Land and improvements	3,840,697	-0-	-0-	-0-	3,840,697
Construction in progress	3,955,805	-0-	-0-	-0-	3,955,805
Depreciable capital assets	59,103,425	4,977,123	96,891	-0-	64,177,439
	66,899,927	4,977,123	96,891	-0-	71,973,941
Less accumulated depreciation	20,362,522	1,087,540	54,632	-0-	21,504,694
Capital assets, net	46,537,405	3,889,583	42,259	-0-	50,469,247
Other assets					
Investment in affiliates	1,421,955	-0-	-0-	(1,163,539)	258,416
Bond issue costs, net	437,048	-0-	-0-	-0-	437,048
Other	577,823	-0-	-0-	(161,225)	416,598
Total other assets	2,436,826	-0-	-0-	(1,324,764)	1,112,062
Total assets	\$ 88,002,228	\$ 4,011,917	\$ 246,917	\$ (1,324,764)	\$ 90,936,298

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2007

LIABILITIES AND NET ASSETS

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current liabilities					
Accounts payable	\$ 2,424,917	\$ 17,644	\$ 15,562	\$ -0-	\$ 2,458,123
Accrued salaries and related liabilities	2,135,445	-0-	10,828	-0-	2,146,273
Accrued expenses and other current liabilities	2,858,869	204,037	161,225	(161,225)	3,062,906
Current portion of long-term debt					
Loans payable	60,811	131,892	-0-	-0-	192,703
Revenue bonds payable	1,150,000	-0-	-0-	-0-	1,150,000
Total current liabilities	<u>8,630,042</u>	<u>353,573</u>	<u>187,615</u>	<u>(161,225)</u>	<u>9,010,005</u>
Long term debt, net of current portion					
Loans payable	75,932	2,554,107	-0-	-0-	2,630,039
Revenue bonds payable	37,026,910	-0-	-0-	-0-	37,026,910
Total long term debt	<u>37,102,842</u>	<u>2,554,107</u>	<u>-0-</u>	<u>-0-</u>	<u>39,656,949</u>
Total liabilities	45,732,884	2,907,680	187,615	(161,225)	48,666,954
Net assets					
Invested in capital assets, net of related debt	8,223,752	1,203,584	42,259	-0-	9,469,595
Restricted					
Trustee held for debt service and capital	5,224,345	-0-	-0-	-0-	5,224,345
Internally designated for capital improvements	538,852	-0-	-0-	-0-	538,852
Total restricted	<u>5,763,197</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>5,763,197</u>
Unrestricted	28,282,395	(99,347)	17,043	(1,163,539)	27,036,552
Total net assets	<u>42,269,344</u>	<u>1,104,237</u>	<u>59,302</u>	<u>(1,163,539)</u>	<u>42,269,344</u>
Total liabilities and net assets	<u>\$ 88,002,228</u>	<u>\$ 4,011,917</u>	<u>\$ 246,917</u>	<u>\$ (1,324,764)</u>	<u>\$ 90,936,298</u>

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Revenue					
Net patient service revenue	\$ 62,420,954	\$ -0-	\$ 922,376	\$ -0-	\$ 63,343,330
Other operating revenue	4,272,277	733,372	(1,244)	(523,189)	4,481,216
Total operating revenue	<u>66,693,231</u>	<u>733,372</u>	<u>921,132</u>	<u>(523,189)</u>	<u>67,824,546</u>
Operating expenses					
Salaries and wages	24,135,048	33,847	660,089	-0-	24,828,984
Employee benefits	7,245,882	-0-	88,913	-0-	7,334,795
Professional medical fees	4,131,538	-0-	2,637	-0-	4,134,175
Purchased services	3,008,365	-0-	9,604	-0-	3,017,969
Supplies	8,378,692	-0-	105,766	-0-	8,484,458
Repairs and maintenance	1,401,033	61,822	1,361	-0-	1,464,216
Equipment rental	2,337,225	20,484	85,630	-0-	2,443,339
Utilities	833,954	123,955	-0-	-0-	957,909
Depreciation and amortization	2,924,450	128,359	6,135	-0-	3,058,944
Insurance	648,972	7,436	45,292	-0-	701,700
Other expenses	2,483,027	68,825	(31,387)	(523,189)	1,997,276
Total operating expenses	<u>57,528,186</u>	<u>444,728</u>	<u>974,040</u>	<u>(523,189)</u>	<u>58,423,765</u>
Operating income (loss)	9,165,045	288,644	(52,908)	-0-	9,400,781
Nonoperating income (expense)					
Investment income	1,357,668	-0-	20	-0-	1,357,688
Interest expense	(2,148,528)	(186,836)	(68)	-0-	(2,335,432)
Gain on investment in affiliates	(108,124)	-0-	-0-	(48,851)	(156,975)
Other nonoperating revenue	139,989	-0-	-0-	-0-	139,989
Total nonoperating income (expenses), net	<u>(758,995)</u>	<u>(186,836)</u>	<u>(48)</u>	<u>(48,851)</u>	<u>(994,730)</u>
Change in net assets	8,406,050	101,808	(52,956)	(48,851)	8,406,051
Net assets					
Beginning of year	33,863,294	1,002,429	112,258	(1,114,688)	33,863,293
End of year	<u>\$ 42,269,344</u>	<u>\$ 1,104,237</u>	<u>\$ 59,302</u>	<u>\$ (1,163,539)</u>	<u>\$ 42,269,344</u>

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