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August 4, 2010

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

We have reviewed the audit report prepared by Blue & Co., LLP, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. 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, 2009, 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, 2009 AND 2008

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 combined balance sheet of Witham Health Services (Hospital) as of December 31, 2009 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The summarized comparative information as of and for the year ended December 31, 2008 has been derived from the Hospital's 2008 combined financial statements and, in our report dated May 27, 2009, we expressed an unqualified opinion on those combined financial statements.

We conducted our audit 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 audit 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 audit provides 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, 2009 and the combined results of its 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.

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 audit was 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 audit 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 26, 2010

REQUIRED SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2009 AND 2008

This section of Witham Health Services' (the Hospital) annual combined financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's combined financial performance during the year ended December 31, 2009. 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 \$4,977,000 or 10% in 2009.
- The Hospital reported operating income in excess of approximately \$6,424,000 for the year 2009, representing an increase of approximately \$3,324,000 in comparison to the year 2008 results.
- Total operating revenue increased by approximately \$5,767,000 in 2009 compared to 2008.

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, 2009 AND 2008

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.

Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets	\$ 36,891,442	\$ 36,882,584
Assets whose use is limited	5,584,200	5,442,804
Capital assets, net	77,632,038	61,697,135
Other assets	2,696,066	2,487,502
Total assets	<u>\$ 122,803,746</u>	<u>\$ 106,510,025</u>
LIABILITIES		
Current liabilities	\$ 15,672,641	\$ 13,060,982
Long-term debt	54,419,585	45,714,090
Total liabilities	<u>70,092,226</u>	<u>58,775,072</u>
NET ASSETS		
Invested in capital assets, net of related debt	17,837,938	12,183,262
Restricted		
Trustee held for debt service and capital	5,897,992	5,038,534
Internally designated for capital improvements	244,361	1,025,571
Expendable for donor restriction	1,657,304	1,520,601
Total restricted	<u>7,799,657</u>	<u>7,584,706</u>
Unrestricted	<u>27,073,925</u>	<u>27,966,985</u>
Total net assets	<u>52,711,520</u>	<u>47,734,953</u>
Total liabilities and net assets	<u>\$ 122,803,746</u>	<u>\$ 106,510,025</u>

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2009 AND 2008

Components of the change in the Hospital's assets included the increase in capital assets of approximately \$15,935,000 over 2008 related to construction and expansion of Hospital facilities.

Long-term debt increased approximately \$8,705,000 compared to 2008 due mainly to borrowings for new capital projects and equipment.

Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues		
Net patient service revenue	\$ 70,750,143	\$ 65,338,149
Other operating revenue	6,114,123	5,758,850
Total revenues	<u>76,864,266</u>	<u>71,096,999</u>
Expenses		
Salaries and benefits	38,888,995	38,935,703
Supplies	10,240,658	8,716,740
Depreciation and amortization	3,898,481	3,244,046
Other operating expenses	<u>17,412,443</u>	<u>17,100,977</u>
Total expenses	<u>70,440,577</u>	<u>67,997,466</u>
Operating income	6,423,689	3,099,533
Non-operating expenses, net	<u>(1,447,122)</u>	<u>(756,864)</u>
Change in net assets	4,976,567	2,342,669
Net assets		
Beginning of year	47,734,953	45,392,284
End of year	<u>\$ 52,711,520</u>	<u>\$ 47,734,953</u>

The main component of the overall change in the Hospital's net assets is its operating income. In 2008, the Hospital reported operating income of approximately \$3,100,000. In 2009, the Hospital reported operating income of approximately \$6,424,000, which is a \$3,324,000 increase from 2008. The primary reason for the increase in operating income was an increase in patient service revenues of approximately \$5,412,000 in 2009 combined with an increase in operating expenses of approximately \$2,443,000 in the same year. Medicaid Disproportionate Share Program and Upper Payment Limit funds recorded in 2009 were approximately \$1,724,000 compared to approximately \$897,000 in 2008.

Nonoperating revenues consist primarily of investment income (loss), interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately \$757,000 in 2008 to a net expense of approximately \$1,447,000 in 2009.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2009 AND 2008

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, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

	<u>2009</u>	<u>2008</u>
Cash flows from		
Operating	\$ 10,873,971	\$ 10,383,585
Capital and related financing	(11,879,198)	(8,669,979)
Investing	<u>(1,156,023)</u>	<u>(2,008,356)</u>
Change in cash and equivalents	<u>\$ (2,161,250)</u>	<u>\$ (294,750)</u>

Operating activities generated cash of approximately \$10,874,000 in 2009 while capital and related financing activities used cash of approximately \$11,879,000 in 2009. The majority of use related to capital additions of \$13,848,000 during the year. Investing activities used cash of approximately \$1,156,000 in 2009 mainly due to classification of investments and cash equivalents.

SOURCES OF REVENUE

During 2009, 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 53% of the Hospital's gross revenues in 2009 and 52% in 2008.

Following is a table of major sources of gross patient revenues for 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Medicare	40%	40%
Medicaid	13%	12%
Commercial	40%	42%
Self Pay	7%	6%
	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2009 AND 2008

CAPITAL ASSETS

At the end of 2009, the Hospital had approximately \$77,632,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 5,662,409	\$ 4,464,506
Buildings and improvements	64,288,346	43,015,266
Equipment	34,648,587	24,801,751
Construction in progress	183,946	14,111,224
Total property and equipment	<u>104,783,288</u>	<u>86,392,747</u>
Less accumulated depreciation	<u>27,151,250</u>	<u>24,695,612</u>
Capital assets, net	<u>\$ 77,632,038</u>	<u>\$ 61,697,135</u>

Net capital assets increased by approximately \$15,935,000 in 2009 compared to 2008.

DEBT

The Hospital's debt consists of loans payable and capital lease obligations 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 healthcare reform, 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, 2009 AND 2008

	ASSETS				
	2009			2008	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 7,593,267	\$ 2,507,823	\$ -0-	\$ 10,101,090	\$ 12,608,173
Investments	14,034,221	20,118	-0-	14,054,339	12,342,605
Patient accounts receivable, less allowance for uncollectible accounts of \$5,291,000 in 2009 and \$3,828,000 in 2008	9,365,263	-0-	-0-	9,365,263	8,608,412
Other receivables	587,037	126,860	-0-	713,897	934,479
Inventory and other current assets	1,355,948	60,905	-0-	1,416,853	1,198,915
Current portion of assets whose use is limited	1,240,000	-0-	-0-	1,240,000	1,190,000
Total current assets	<u>34,175,736</u>	<u>2,715,706</u>	<u>-0-</u>	<u>36,891,442</u>	<u>36,882,584</u>
Assets whose use is limited					
Held by trustee for debt service and capital	5,897,992	-0-	-0-	5,897,992	5,038,534
Designated for capital improvements	244,361	681,847	-0-	926,208	1,594,270
Total assets whose use is limited	<u>6,142,353</u>	<u>681,847</u>	<u>-0-</u>	<u>6,824,200</u>	<u>6,632,804</u>
Less current portion	<u>1,240,000</u>	<u>-0-</u>	<u>-0-</u>	<u>1,240,000</u>	<u>1,190,000</u>
Noncurrent assets whose use is limited	<u>4,902,353</u>	<u>681,847</u>	<u>-0-</u>	<u>5,584,200</u>	<u>5,442,804</u>
Capital assets					
Land and improvements	5,662,409	-0-	-0-	5,662,409	4,464,506
Construction in progress	183,946	-0-	-0-	183,946	14,111,224
Depreciable capital assets	98,936,933	-0-	-0-	98,936,933	67,817,017
	<u>104,783,288</u>	<u>-0-</u>	<u>-0-</u>	<u>104,783,288</u>	<u>86,392,747</u>
Less accumulated depreciation	27,151,250	-0-	-0-	27,151,250	24,695,612
Capital assets, net	<u>77,632,038</u>	<u>-0-</u>	<u>-0-</u>	<u>77,632,038</u>	<u>61,697,135</u>
Other assets					
Investment in affiliates and other	1,687,184	-0-	-0-	1,687,184	1,714,334
Debt issue costs, net of accumulated amortization of \$99,000 in 2009 and \$77,000 in 2008	461,828	-0-	-0-	461,828	419,527
Other	559,617	-0-	(12,563)	547,054	353,641
Total other assets	<u>2,708,629</u>	<u>-0-</u>	<u>(12,563)</u>	<u>2,696,066</u>	<u>2,487,502</u>
Total assets	<u>\$ 119,418,756</u>	<u>\$ 3,397,553</u>	<u>\$ (12,563)</u>	<u>\$ 122,803,746</u>	<u>\$ 106,510,025</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	2009			2008	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Accounts payable	\$ 3,046,900	\$ 12,563	\$ (12,563)	\$ 3,046,900	\$ 2,255,525
Accrued salaries and related liabilities	3,099,874	-0-	-0-	3,099,874	2,767,334
Accrued expenses and other current liabilities	2,819,601	-0-	-0-	2,819,601	3,260,746
Estimated third-party settlements	1,331,751	-0-	-0-	1,331,751	977,594
Current portion of long term debt					
Capital lease obligation	1,173,739	-0-	-0-	1,173,739	-0-
Loans payable	2,960,776	-0-	-0-	2,960,776	2,609,783
Revenue bonds payable	1,240,000	-0-	-0-	1,240,000	1,190,000
Total current liabilities	<u>15,672,641</u>	<u>12,563</u>	<u>(12,563)</u>	<u>15,672,641</u>	<u>13,060,982</u>
Long term debt, net of current portion					
Capital lease obligation	4,693,678	-0-	-0-	4,693,678	-0-
Loans payable	15,071,257	-0-	-0-	15,071,257	9,848,310
Revenue bonds payable	34,654,650	-0-	-0-	34,654,650	35,865,780
Total long term debt	<u>54,419,585</u>	<u>-0-</u>	<u>-0-</u>	<u>54,419,585</u>	<u>45,714,090</u>
Total liabilities	70,092,226	12,563	(12,563)	70,092,226	58,775,072
Net assets					
Invested in capital assets, net of related debt	17,837,938	-0-	-0-	17,837,938	12,183,262
Restricted					
Trustee held for debt service and capital	5,897,992	-0-	-0-	5,897,992	5,038,534
Internally designated for capital improvements	244,361	-0-	-0-	244,361	1,025,571
Expendable for donor restriction	-0-	1,657,304	-0-	1,657,304	1,520,601
Total restricted	<u>6,142,353</u>	<u>1,657,304</u>	<u>-0-</u>	<u>7,799,657</u>	<u>7,584,706</u>
Unrestricted	25,346,239	1,727,686	-0-	27,073,925	27,966,985
Total net assets	<u>49,326,530</u>	<u>3,384,990</u>	<u>-0-</u>	<u>52,711,520</u>	<u>47,734,953</u>
Total liabilities and net assets	<u>\$ 119,418,756</u>	<u>\$ 3,397,553</u>	<u>\$ (12,563)</u>	<u>\$ 122,803,746</u>	<u>\$ 106,510,025</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, 2009 AND 2008

	2009			2008	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 70,750,143	\$ -0-	\$ -0-	\$ 70,750,143	\$ 65,338,149
Other operating revenue	6,114,123	-0-	-0-	6,114,123	5,758,850
Total operating revenue	76,864,266	-0-	-0-	76,864,266	71,096,999
Operating expenses					
Salaries and wages	29,253,032	-0-	-0-	29,253,032	29,359,581
Employee benefits	9,635,963	-0-	-0-	9,635,963	9,576,122
Professional medical fees	5,642,109	-0-	-0-	5,642,109	4,905,345
Purchased services	3,492,718	-0-	-0-	3,492,718	3,666,422
Supplies	10,240,658	-0-	-0-	10,240,658	8,716,740
Repairs and maintenance	1,915,496	-0-	-0-	1,915,496	1,714,171
Equipment rental	2,239,861	-0-	-0-	2,239,861	2,318,189
Utilities	1,207,649	-0-	-0-	1,207,649	1,092,991
Depreciation and amortization	3,898,481	-0-	-0-	3,898,481	3,244,046
Insurance	1,127,225	-0-	-0-	1,127,225	851,393
Other expenses	1,787,385	-0-	-0-	1,787,385	2,552,466
Total operating expenses	70,440,577	-0-	-0-	70,440,577	67,997,466
Operating income	6,423,689	-0-	-0-	6,423,689	3,099,533
Nonoperating revenue (expense)					
Investment income (loss)	304,798	154,062	(8,472)	450,388	796,964
Interest expense	(2,262,631)	-0-	8,472	(2,254,159)	(2,241,104)
Foundation revenue	-0-	258,650	-0-	258,650	241,649
Foundation expense	-0-	(143,570)	-0-	(143,570)	(159,490)
Gain on investment in affiliates	88,460	-0-	-0-	88,460	461,944
Other nonoperating revenue	153,109	-0-	-0-	153,109	143,173
Total nonoperating revenue (expense), net	(1,716,264)	269,142	-0-	(1,447,122)	(756,864)
Change in net assets	4,707,425	269,142	-0-	4,976,567	2,342,669
Net assets					
Beginning of year	44,619,105	3,115,848	-0-	47,734,953	45,392,284
End of year	\$ 49,326,530	\$ 3,384,990	\$ -0-	\$ 52,711,520	\$ 47,734,953

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 70,347,449	\$ -0-	\$ -0-	\$ 70,347,449	\$ 68,730,796
Cash paid for salaries, wages and benefits	(38,556,455)	-0-	-0-	(38,556,455)	(38,314,642)
Cash paid to vendors and suppliers	(27,294,506)	-0-	-0-	(27,294,506)	(25,818,035)
Other receipts, net	6,114,123	263,360	-0-	6,377,483	5,785,466
Net cash flows from operating activities	10,610,611	263,360	-0-	10,873,971	10,383,585
Capital and related financing activities					
Acquisition and construction of capital assets	(13,848,462)	-0-	-0-	(13,848,462)	(14,649,876)
Interest on long-term debt	(2,262,631)	-0-	8,472	(2,254,159)	(2,241,104)
Cash paid for debt issue costs	(64,729)	-0-	-0-	(64,729)	-0-
Proceeds from long-term debt	6,156,291	-0-	-0-	6,156,291	9,887,191
Principal payments for long-term debt	(1,868,139)	-0-	-0-	(1,868,139)	(1,666,190)
Net cash flows from capital and related financing activities	(11,887,670)	-0-	8,472	(11,879,198)	(8,669,979)
Investing activities					
Investment income (loss)	304,798	154,062	(8,472)	450,388	796,964
Change in investment in affiliated companies	27,150	-0-	-0-	27,150	(1,455,918)
Other changes in investments and assets whose use is limited	(1,754,132)	120,571	-0-	(1,633,561)	(1,349,402)
Net cash flows from investing activities	(1,422,184)	274,633	(8,472)	(1,156,023)	(2,008,356)
Net change in cash and cash equivalents	(2,699,243)	537,993	-0-	(2,161,250)	(294,750)
Cash and cash equivalents					
Beginning of year	17,414,140	1,969,830	-0-	19,383,970	19,943,071
End of year	<u>\$ 14,714,897</u>	<u>\$ 2,507,823</u>	<u>\$ -0-</u>	<u>\$ 17,222,720</u>	<u>\$ 19,648,321</u>
Reconciliation of cash and cash equivalents to the combined balance sheets					
Cash and cash equivalents					
In current assets	\$ 7,593,267	\$ 2,507,823	\$ -0-	\$ 10,101,090	\$ 12,608,173
In investments	979,277	-0-	-0-	979,277	976,043
In assets whose use is limited - held by trustee	5,897,992	-0-	-0-	5,897,992	5,038,534
In assets whose use is limited - designated	244,361	-0-	-0-	244,361	1,025,571
Total cash and cash equivalents	<u>\$ 14,714,897</u>	<u>\$ 2,507,823</u>	<u>\$ -0-</u>	<u>\$ 17,222,720</u>	<u>\$ 19,648,321</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ 6,423,689	\$ -0-	\$ -0-	\$ 6,423,689	\$ 3,099,534
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	3,898,481	-0-	-0-	3,898,481	3,244,046
Bad debts	10,279,603	-0-	-0-	10,279,603	8,200,337
Changes in operating assets and liabilities					
Patient accounts receivable	(11,036,454)	-0-	-0-	(11,036,454)	(8,811,865)
Other receivables	206,082	14,500	-0-	220,582	35,426
Inventory and other current assets	(200,471)	239,051	-0-	38,580	(2,680)
Accounts payable	794,129	9,809	-0-	803,938	(204,289)
Accrued salaries and related liabilities	332,540	-0-	-0-	332,540	621,061
Accrued expenses and other current liabilities	(441,145)	-0-	-0-	(441,145)	197,840
Estimated third-party settlements	354,157	-0-	-0-	354,157	4,004,175
Net cash flows from operating activities	<u>\$ 10,610,611</u>	<u>\$ 263,360</u>	<u>\$ -0-</u>	<u>\$ 10,873,971</u>	<u>\$ 10,383,585</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

The combined 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 combined financial statements for the year ended December 31, 2008, 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 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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

All significant transactions between the Hospital and MOP, LLC, Creekside, and CIHA 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 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, 2009 AND 2008

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.

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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 audited the year-end cost report filed with the Medicare program through December 31, 2006 with differences reflected as deductions from revenue in 2009. Amounts for unresolved cost reports for 2007 through 2009 are reflected in estimated third-party settlements on the combined balance sheets. During 2009 and 2008, 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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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>2009</u>	<u>2008</u>
Supplemental cash flows information		
Cash paid for interest	\$ 2,254,159	\$ 2,241,104
Property and equipment in payables	\$ -0-	\$ 1,019,993
Equipment acquired through capital lease	\$ 5,963,205	\$ -0-

Interest expense capitalized during 2009 and 2008 was approximately \$-0- and \$128,000, 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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 \$462,000 and \$420,000 as of December 31, 2009 and 2008, respectively. Accumulated amortization as of December 31, 2009 and 2008 was approximately \$99,000 and \$77,000, respectively.

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).

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 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.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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.

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$474,596 and \$1,193,162 for 2009 and 2008, respectively.

Reclassifications

Certain amounts from the 2008 combined financial statements have been reclassified to conform to the current year presentation.

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 26, 2010.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

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 \$1,724,000 and \$897,000 during 2009 and 2008, respectively. These programs are Federal programs administered by the State of Indiana.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Inpatient routine services	\$ 11,389,003	\$ 10,550,557
Inpatient ancillary services	30,234,460	23,510,797
Outpatient ancillary services	<u>143,273,639</u>	<u>130,344,057</u>
Gross patient service revenue	184,897,102	164,405,411
Contractual allowances	99,463,092	87,804,178
Charity care	4,404,264	3,062,747
Bad debts	<u>10,279,603</u>	<u>8,200,337</u>
Deductions from revenue	<u>114,146,959</u>	<u>99,067,262</u>
Net patient service revenue	<u>\$ 70,750,143</u>	<u>\$ 65,338,149</u>

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 2009 and 2008 was \$4,404,264 and \$3,062,747, respectively.

3. INVESTMENTS

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 979,277	\$ 976,043
Certificates of deposit	20,118	138,757
US Government securities	<u>13,054,944</u>	<u>11,227,805</u>
	<u>\$ 14,054,339</u>	<u>\$ 12,342,605</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

4. 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:

	<u>2009</u>	<u>2008</u>
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 5,897,992	\$ 5,038,534
Designated for capital improvements		
Cash and cash equivalents	244,361	1,025,571
Mutual funds - fixed income	131,020	28,306
Mutual funds - equity	402,932	286,529
Corporate equity securities	20,798	20,674
Corporate debt securities	127,097	233,190
Total designated for capital improvements	<u>926,208</u>	<u>1,594,270</u>
Total assets whose use is limited	<u>\$ 6,824,200</u>	<u>\$ 6,632,804</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. Funded depreciation investments consist of cash equivalents and US Government securities. Market value approximated cost as of December 31, 2009 and 2008.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, 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:

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

December 31, 2009					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 13,054,944	\$ -0-	\$ 13,054,944	\$ -0-	\$ -0-
Certificates of deposit	20,118	20,118	-0-	-0-	-0-
Mutual funds - fixed income	131,020	131,020	-0-	-0-	-0-
Mutual funds - equity	402,932	402,932	-0-	-0-	-0-
Corporate equity securities	20,798	20,798	-0-	-0-	-0-
Corporate debt	127,097	127,097	-0-	-0-	-0-
	\$ 13,756,909	\$ 701,965	\$ 13,054,944	\$ -0-	\$ -0-

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 - fixed income	28,306	28,306	-0-	-0-	-0-
Mutual funds - equity	286,529	286,529	-0-	-0-	-0-
Corporate equity securities	20,674	20,674	-0-	-0-	-0-
Corporate debt	233,190	233,190	-0-	-0-	-0-
	\$ 11,935,261	\$ 4,803,697	\$ 7,131,564	\$ -0-	\$ -0-

Corporate equity and debt securities are held by the Foundation.

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 COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 17,222,720	\$ 19,648,321
Investments	13,756,909	11,935,261
	<u>\$ 30,979,629</u>	<u>\$ 31,583,582</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 10,101,090	\$ 12,608,173
Investments	14,054,339	12,342,605
Held by trustee	5,897,992	5,038,534
Designated	926,208	1,594,270
	<u>\$ 30,979,629</u>	<u>\$ 31,583,582</u>

6. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 are as follows:

		December 31, 2009			
		Total	Level 1	Level 2	Level 3
Assets					
Investments					
U.S. Government Securities	\$ 13,054,944	\$ -0-	\$ 13,054,944	\$ -0-	
Cash and cash equivalents	979,277				
Certificates of deposit at contract value	20,118				
Total investments	\$ 14,054,339				
Assets whose use is limited					
Mutual funds - fixed income	\$ 131,020	\$ 131,020	\$ -0-	\$ -0-	
Mutual funds - equity	402,932	402,932	-0-	-0-	
Corporate equity securities	20,798	20,798	-0-	-0-	
Corporate debt securities	127,097	-0-	127,097	-0-	
	681,847	\$ 554,750	127,097	\$ -0-	
Cash and equivalents	6,142,353				
Total assets whose use is limited	\$ 6,824,200				
		December 31, 2008			
		Total	Level 1	Level 2	Level 3
Assets:					
Investments					
U.S. Government Securities	\$ 11,227,805	\$ -0-	\$ 11,227,805	\$ -0-	
Cash and cash equivalents	976,043				
Certificates of deposit at contract value	138,757				
Total investments	\$ 12,342,605				
Assets whose use is limited					
Mutual funds - fixed income	\$ 28,306	\$ 28,306	\$ -0-	\$ -0-	
Mutual funds - equity	286,529	286,529	-0-	-0-	
Corporate equity securities	20,674	20,674	-0-	-0-	
Corporate debt securities	233,190	-0-	233,190	-0-	
	568,699	\$ 335,509	233,190	\$ -0-	
Cash and equivalents	6,064,105				
Total assets whose use is limited	\$ 6,632,804				

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, 2009 and 2008, the carrying value of the Hospital's long-term debt approximated its fair value.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

7. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment for 2009 and 2008 follow:

	December 31 2008	Additions	Disposals	Transfers	December 31 2009
Land and improvements	\$ 4,464,506	\$ 5,312	\$ -0-	\$ 1,192,591	\$ 5,662,409
Buildings and improvements	43,015,266	-0-	-0-	21,273,080	64,288,346
Equipment	24,801,751	3,701,448	(1,421,126)	7,566,514	34,648,587
Construction in progress	14,111,224	16,104,907	-0-	(30,032,185)	183,946
Total capital assets	<u>86,392,747</u>	<u>19,811,667</u>	<u>(1,421,126)</u>	<u>-0-</u>	<u>104,783,288</u>
Less accumulated depreciation					
Land improvements	692,293	124,454	-0-	-0-	816,747
Buildings and improvements	8,175,577	1,288,581	-0-	-0-	9,464,158
Equipment	15,827,742	2,462,221	(1,419,618)	-0-	16,870,345
Total accumulated depreciation	<u>24,695,612</u>	<u>3,875,256</u>	<u>(1,419,618)</u>	<u>-0-</u>	<u>27,151,250</u>
Capital assets, net	<u>\$ 61,697,135</u>	<u>\$ 15,936,411</u>	<u>\$ (1,508)</u>	<u>\$ -0-</u>	<u>\$ 77,632,038</u>

	December 31 2007	Additions	Disposals	Transfers	December 31 2008
Land and improvements	\$ 3,840,697	\$ 320,560	\$ -0-	\$ 303,249	\$ 4,464,506
Buildings and improvements	41,684,304	11,425	-0-	1,319,537	43,015,266
Equipment	22,493,135	1,740,106	(231,070)	799,580	24,801,751
Construction in progress	3,955,805	12,577,785	-0-	(2,422,366)	14,111,224
Total capital assets	<u>71,973,941</u>	<u>14,649,876</u>	<u>(231,070)</u>	<u>-0-</u>	<u>86,392,747</u>
Less accumulated depreciation					
Land improvements	599,813	92,480	-0-	-0-	692,293
Buildings and improvements	6,978,321	1,197,256	-0-	-0-	8,175,577
Equipment	13,926,560	1,954,310	(53,128)	-0-	15,827,742
Total accumulated depreciation	<u>21,504,694</u>	<u>3,244,046</u>	<u>(53,128)</u>	<u>-0-</u>	<u>24,695,612</u>
Capital assets, net	<u>\$ 50,469,247</u>	<u>\$ 11,405,830</u>	<u>\$ (177,942)</u>	<u>\$ -0-</u>	<u>\$ 61,697,135</u>

Depreciation and amortization expense for 2009 and 2008 was \$3,898,481 and \$3,244,046, respectively.

Remaining construction commitments as of December 31, 2009 were approximately \$700,000.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. LONG TERM DEBT

A summary of long-term debt as of December 31, 2009 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 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, 2009 and 2008 were \$15,000,000 and \$9,108,000, respectively. The construction term loan bears interest at LIBOR plus 1.10% (approximately 2.25% as of December 31, 2009) and is secured real property. The loan is due in 2034.
- 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 cost and accumulated amortization of the equipment as of December 31, 2009 was \$5,963,205 and \$-0-, respectively.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2009, 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 2009 and 2008:

	December 31 2008	Additional Borrowings	Payments	December 31 2009	Current Portion
2005 Revenue bonds	\$ 37,350,000	\$ -0-	\$ 1,190,000	\$ 36,160,000	\$ 1,240,000
Loans payable	12,458,093	6,156,291	582,351	18,032,033	2,960,776
Capital lease obligation	-0-	5,963,205	95,788	5,867,417	1,173,739
	<u>49,808,093</u>	<u>\$ 12,119,496</u>	<u>\$ 1,868,139</u>	60,059,450	<u>\$ 5,374,515</u>
Unamortized loss on bond defeasance	(2,800,369)			(2,637,241)	
Unamortized bond premium	<u>2,506,149</u>			<u>2,371,891</u>	
	<u>\$ 49,513,873</u>			<u>\$ 59,794,100</u>	

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	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	10,143,709	516,190	12,458,093	2,609,783
	41,330,574	\$ 10,143,709	\$ 1,666,190	49,808,093	\$ 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			\$ 49,513,873	

Scheduled principal and interest repayments on long-term debt and payments on loans payable for the years succeeding December 31, 2009 are as follows:

Year Ending December 31,	Principal	Interest	Total
2010	\$ 5,374,515	\$ 2,435,287	\$ 7,809,802
2011	3,184,519	2,306,684	5,491,203
2012	3,298,309	2,170,450	5,468,759
2013	3,299,110	2,030,184	5,329,294
2014	3,248,068	1,888,050	5,136,118
2015-2019	12,377,192	7,743,947	20,121,139
2020-2024	14,969,307	4,684,253	19,653,560
2025-2029	11,637,190	1,217,270	12,854,460
2030-2034	2,671,240	132,727	2,803,967
	\$ 60,059,450	\$ 24,608,852	\$ 84,668,302

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 2009 and 2008 was \$2,239,861 and \$2,318,189, respectively. The following is a schedule of future minimum non cancelable lease payments expiring through 2012 for the years succeeding December 31, 2009:

Year Ending December 31,	
2010	\$ 166,000
2011	36,000
2012	2,500
	\$ 204,500

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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. 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 \$1,179,994 and \$1,163,057 for 2009 and 2008, respectively.

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, 2009 and 2008 was as follows:

	<u>Receivables</u>		<u>Revenues</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Medicare	28%	42%	40%	40%
Medicaid	12%	10%	13%	12%
Commercial	31%	25%	40%	42%
Self-Pay and other	29%	23%	7%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. 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 \$1,271,982 and \$1,209,350 as of December 31, 2009 and 2008, respectively.

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 \$225,250 and \$232,797 as of December 31, 2009 and 2008, 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 \$189,948 and \$268,987 as of December 31, 2009 and 2008, 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. 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 \$5,029,760 and \$5,280,187 in 2009 and 2008, respectively.

14. SUBSEQUENT EVENT

Subsequent to December 31, 2009, the Hospital committed approximately \$2,250,000 to the construction of the area YMCA.

SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2009

ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current assets						
Cash and cash equivalents	\$ 6,962,265	\$ 109,514	\$ 93,234	\$ 428,254	\$ -0-	\$ 7,593,267
Investments	14,034,221	-0-	-0-	-0-	-0-	14,034,221
Patient accounts receivable, net	9,100,945	-0-	264,318	-0-	-0-	9,365,263
Other receivables	542,033	45,004	-0-	-0-	-0-	587,037
Inventory and other current assets	1,352,551	3,397	-0-	-0-	-0-	1,355,948
Current portion of assets whose use is limited	1,240,000	-0-	-0-	-0-	-0-	1,240,000
Total current assets	<u>33,232,015</u>	<u>157,915</u>	<u>357,552</u>	<u>428,254</u>	<u>-0-</u>	<u>34,175,736</u>
Assets whose use is limited						
Held by trustee for debt service and capital	5,897,992	-0-	-0-	-0-	-0-	5,897,992
Designated for capital improvements	244,361	-0-	-0-	-0-	-0-	244,361
Total assets whose use is limited	<u>6,142,353</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,142,353</u>
Less current portion	1,240,000	-0-	-0-	-0-	-0-	1,240,000
Noncurrent assets whose use is limited	<u>4,902,353</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,902,353</u>
Capital assets						
Land and improvements	5,662,409	-0-	-0-	-0-	-0-	5,662,409
Construction in progress	183,946	-0-	-0-	-0-	-0-	183,946
Depreciable capital assets	93,752,219	5,000,915	183,799	-0-	-0-	98,936,933
	<u>99,598,574</u>	<u>5,000,915</u>	<u>183,799</u>	<u>-0-</u>	<u>-0-</u>	<u>104,783,288</u>
Less accumulated depreciation	25,730,054	1,346,428	74,768	-0-	-0-	27,151,250
Capital assets, net	<u>73,868,520</u>	<u>3,654,487</u>	<u>109,031</u>	<u>-0-</u>	<u>-0-</u>	<u>77,632,038</u>
Other assets						
Investment in affiliates and other	2,649,277	-0-	-0-	-0-	(962,093)	1,687,184
Debt issue costs, net	461,828	-0-	-0-	-0-	-0-	461,828
Other	2,006,312	-0-	-0-	88,755	(1,535,450)	559,617
Total other assets	<u>5,117,417</u>	<u>-0-</u>	<u>-0-</u>	<u>88,755</u>	<u>(2,497,543)</u>	<u>2,708,629</u>
Total assets	<u>\$ 117,120,305</u>	<u>\$ 3,812,402</u>	<u>\$ 466,583</u>	<u>\$ 517,009</u>	<u>\$ (2,497,543)</u>	<u>\$ 119,418,756</u>

See report of independent auditors on pages 1 and 2.

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2009

LIABILITIES AND NET ASSETS

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Current liabilities						
Accounts payable	\$ 3,040,769	\$ -0-	\$ 6,131	\$ -0-	\$ -0-	\$ 3,046,900
Accrued salaries and related liabilities	3,053,907	-0-	45,967	-0-	-0-	3,099,874
Accrued expenses and other current liabilities	2,865,035	43,569	1,404,719	41,728	(1,535,450)	2,819,601
Estimated third-party settlements	1,331,751	-0-	-0-	-0-	-0-	1,331,751
Current portion of long term debt						
Capital lease obligation	1,173,739	-0-	-0-	-0-	-0-	1,173,739
Loans payable	668,994	2,291,782	-0-	-0-	-0-	2,960,776
Revenue bonds payable	1,240,000	-0-	-0-	-0-	-0-	1,240,000
Total current liabilities	<u>13,374,195</u>	<u>2,335,351</u>	<u>1,456,817</u>	<u>41,728</u>	<u>(1,535,450)</u>	<u>15,672,641</u>
Long term debt, net of current portion						
Capital lease obligation	4,693,678	-0-	-0-	-0-	-0-	4,693,678
Loans payable	15,071,257	-0-	-0-	-0-	-0-	15,071,257
Revenue bonds payable	34,654,650	-0-	-0-	-0-	-0-	34,654,650
Total long term debt	<u>54,419,585</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>54,419,585</u>
Total liabilities	67,793,780	2,335,351	1,456,817	41,728	(1,535,450)	70,092,226
Net assets						
Invested in capital assets, net of related debt	16,366,202	1,362,705	109,031	-0-	-0-	17,837,938
Restricted						
Trustee held for debt service and capital	5,897,992	-0-	-0-	-0-	-0-	5,897,992
Internally designated for capital improvements	244,361	-0-	-0-	-0-	-0-	244,361
Total restricted	<u>6,142,353</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,142,353</u>
Unrestricted	26,817,970	114,346	(1,099,265)	475,281	(962,093)	25,346,239
Total net assets	<u>49,326,525</u>	<u>1,477,051</u>	<u>(990,234)</u>	<u>475,281</u>	<u>(962,093)</u>	<u>49,326,530</u>
Total liabilities and net assets	<u>\$ 117,120,305</u>	<u>\$ 3,812,402</u>	<u>\$ 466,583</u>	<u>\$ 517,009</u>	<u>\$ (2,497,543)</u>	<u>\$ 119,418,756</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, 2009

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
Revenue						
Net patient service revenue	\$ 69,549,900	\$ -0-	\$ 1,200,243	\$ -0-	\$ -0-	\$ 70,750,143
Other operating revenue	4,967,854	788,756	2,493	355,020	-0-	6,114,123
Total operating revenue	<u>74,517,754</u>	<u>788,756</u>	<u>1,202,736</u>	<u>355,020</u>	<u>-0-</u>	<u>76,864,266</u>
Operating expenses						
Salaries and wages	27,905,993	-0-	1,347,039	-0-	-0-	29,253,032
Employee benefits	9,418,082	-0-	217,881	-0-	-0-	9,635,963
Professional medical fees	5,641,847	-0-	262	-0-	-0-	5,642,109
Purchased services	3,485,975	-0-	6,743	-0-	-0-	3,492,718
Supplies	10,062,240	-0-	176,980	1,438	-0-	10,240,658
Repairs and maintenance	1,835,032	75,106	5,358	-0-	-0-	1,915,496
Equipment rental	2,110,569	20,484	108,808	-0-	-0-	2,239,861
Utilities	1,051,482	156,167	-0-	-0-	-0-	1,207,649
Depreciation and amortization	3,755,202	129,719	13,560	-0-	-0-	3,898,481
Insurance	982,883	7,429	136,913	-0-	-0-	1,127,225
Other expenses	1,547,581	99,164	32,516	108,124	-0-	1,787,385
Total operating expenses	<u>67,796,886</u>	<u>488,069</u>	<u>2,046,060</u>	<u>109,562</u>	<u>-0-</u>	<u>70,440,577</u>
Operating income (loss)	6,720,868	300,687	(843,324)	245,458	-0-	6,423,689
Nonoperating income (expense)						
Investment income	304,781	-0-	17	-0-	-0-	304,798
Interest expense	(2,225,483)	(37,148)	-0-	-0-	-0-	(2,262,631)
Gain/(loss) on investment in affiliates	(225,472)	-0-	-0-	-0-	313,932	88,460
Other nonoperating revenue	132,729	-0-	20,380	-0-	-0-	153,109
Total nonoperating income (expenses), net	<u>(2,013,445)</u>	<u>(37,148)</u>	<u>20,397</u>	<u>-0-</u>	<u>313,932</u>	<u>(1,716,264)</u>
Change in net assets	4,707,423	263,539	(822,927)	245,458	313,932	4,707,425
Net assets						
Beginning of year	44,619,102	1,213,512	(167,307)	229,823	(1,276,025)	44,619,105
End of year	<u>\$ 49,326,525</u>	<u>\$ 1,477,051</u>	<u>\$ (990,234)</u>	<u>\$ 475,281</u>	<u>\$ (962,093)</u>	<u>\$ 49,326,530</u>

See report of independent auditors on pages 1 and 2.

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	<u>1,190,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,190,000</u>
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	4,464,506	-0-	-0-	-0-	-0-	4,464,506
Construction in progress	14,111,224	-0-	-0-	-0-	-0-	14,111,224
Depreciable capital assets	<u>62,719,751</u>	<u>4,998,536</u>	<u>98,730</u>	<u>-0-</u>	<u>-0-</u>	<u>67,817,017</u>
	81,295,481	4,998,536	98,730	-0-	-0-	86,392,747
Less accumulated depreciation	<u>23,417,695</u>	<u>1,216,709</u>	<u>61,208</u>	<u>-0-</u>	<u>-0-</u>	<u>24,695,612</u>
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 and other	2,990,359	-0-	-0-	-0-	(1,276,025)	1,714,334
Debt issue costs, net	419,527	-0-	-0-	-0-	-0-	419,527
Other	<u>826,997</u>	<u>-0-</u>	<u>-0-</u>	<u>29,585</u>	<u>(502,941)</u>	<u>353,641</u>
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	<u>10,659,930</u>	<u>2,621,617</u>	<u>536,140</u>	<u>-0-</u>	<u>(502,941)</u>	<u>13,314,746</u>
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	<u>45,714,090</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>45,714,090</u>
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	<u>6,064,105</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,064,105</u>
Unrestricted	27,942,091	(62,804)	(204,829)	229,823	(1,276,025)	26,628,256
Total net assets	<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>
Total liabilities and net 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 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	68,884,376	791,970	1,065,633	355,020	-0-	71,096,999
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	66,005,063	575,167	1,292,039	125,197	-0-	67,997,466
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 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	(529,555)	(107,528)	(203)	-0-	(112,486)	(749,772)
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	\$ 44,619,102	\$ 1,213,512	\$ (167,307)	\$ 229,823	\$ (1,276,025)	\$ 44,619,105

See report of independent auditors on pages 1 and 2.