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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

August 23, 2011

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

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2010 to December 31, 2010. 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, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



**Small Hospital. Big Medicine.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2010 AND 2009**

*CPAs / ADVISORS*



# WITHAM HEALTH SERVICES

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Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282  
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

We have audited the accompanying consolidated balance sheet of Witham Health Services (Hospital) as of December 31, 2010 and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The summarized comparative information as of and for the year ended December 31, 2009 has been derived from the Hospital's 2009 consolidated financial statements and, in our report dated May 26, 2010, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2010, and the consolidated results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Witham Health Services  
Lebanon, Indiana

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

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

*Blue & Co., LLC*

May 25, 2011

**REQUIRED SUPPLEMENTARY INFORMATION**

# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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This section of Witham Health Services' (Hospital) annual consolidated financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's consolidated financial performance during the year ended December 31, 2010 and 2009. This MD&A does include a discussion and analysis of the activities and results of the Blended Component Units, Medical Office Properties, LLC, Creekside OB/GYN, Inc., Central Indiana Health Association, Inc. and the Discrete Component Unit, the Witham Health Services Foundation, Inc. Please read it in conjunction with the Hospital's consolidated financial statements that follow this MD&A.

### FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased approximately \$991,000 or 2% in 2010 compared to \$4,977,000 or 10% in 2009.
- The Hospital reported operating income of approximately \$3,288,000 for the year 2010, representing a decrease of approximately \$3,136,000 in comparison to the year 2009 results. 2009 operating income of approximately \$6,424,000 was \$3,324,000 higher than 2008.
- Total revenue increased by approximately \$6,256,000 in 2010 compared to 2009. In 2009, total revenue increased \$5,767,000 over 2008.

### USING THIS ANNUAL REPORT

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

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

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

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

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# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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

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

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

#### Balance Sheets

	2010	2009	2010-2009 Change	2008	2009-2008 Change
<b>ASSETS</b>					
Current assets	\$ 47,896,257	\$ 35,915,985	\$ 11,980,272	\$ 36,882,584	\$ (966,599)
Assets whose use is limited	9,259,792	6,559,657	2,700,135	5,442,804	1,116,853
Capital assets, net	87,371,997	77,632,038	9,739,959	61,697,135	15,934,903
Other assets	1,857,031	2,684,633	(827,602)	2,487,502	197,131
Total assets	<u>\$ 146,385,077</u>	<u>\$ 122,792,313</u>	<u>\$ 23,592,764</u>	<u>\$ 106,510,025</u>	<u>\$ 16,282,288</u>
<b>LIABILITIES</b>					
Current liabilities	\$ 14,066,607	\$ 15,661,208	\$ (1,594,601)	\$ 13,060,982	\$ 2,600,226
Long-term debt	78,616,142	54,419,585	24,196,557	45,714,090	8,705,495
Total liabilities	92,682,749	70,080,793	22,601,956	58,775,072	11,305,721
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	4,665,314	17,837,938	(13,172,624)	12,183,262	5,654,676
Restricted					
Trustee held for debt service and capital	9,799,800	5,897,992	3,901,808	5,038,534	859,458
Internally designated for capital improvements	758,897	244,361	514,536	1,025,571	(781,210)
Expendable for donor restriction	1,306,095	1,657,304	(351,209)	1,520,601	136,703
Total restricted	11,864,792	7,799,657	4,065,135	7,584,706	214,951
Unrestricted	37,172,222	27,073,925	10,098,297	27,966,985	(893,060)
Total net assets	53,702,328	52,711,520	990,808	47,734,953	4,976,567
Total liabilities and net assets	<u>\$ 146,385,077</u>	<u>\$ 122,792,313</u>	<u>\$ 23,592,764</u>	<u>\$ 106,510,025</u>	<u>\$ 16,282,288</u>

# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

Total assets increased approximately \$23,593,000 over 2009 with capital assets comprising approximately \$9,740,000 of the increase. Cash, investments and assets whose use is limited increased in total by \$12,771,000 over 2009.

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

Total assets in 2009 increased \$16,282,000 over 2008 mainly due to capital additions net of depreciation of \$15,935,000.

Total liabilities increased \$11,306,000 over 2009 mainly as the result of an increase in long term debt of \$8,705,000.

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

	2010	2009	2010-2009 Change	2008	2009-2008 Change
<b>Revenues</b>					
Net patient service revenue	\$ 76,780,716	\$ 70,750,143	\$ 6,030,573	\$ 65,338,149	\$ 5,411,994
Other operating revenue	6,339,542	6,114,123	225,419	5,758,850	355,273
Total revenues	83,120,258	76,864,266	6,255,992	71,096,999	5,767,267
<b>Expenses</b>					
Salaries and benefits	43,157,531	38,888,995	4,268,536	38,935,703	(46,708)
Supplies	10,862,444	10,240,658	621,786	8,716,740	1,523,918
Depreciation and amortization	6,116,890	3,898,481	2,218,409	3,244,046	654,435
Other operating expenses	19,695,222	17,412,443	2,282,779	17,100,977	311,466
Total expenses	79,832,087	70,440,577	9,391,510	67,997,466	2,443,111
Operating income	3,288,171	6,423,689	(3,135,518)	3,099,533	3,324,156
<b>Non-operating expenses, net</b>	<b>(2,297,363)</b>	<b>(1,447,122)</b>	<b>(850,241)</b>	<b>(756,864)</b>	<b>(690,258)</b>
Change in net assets	990,808	4,976,567	(3,985,759)	2,342,669	2,633,898
<b>Net assets</b>					
Beginning of year	52,711,520	47,734,953	4,976,567	45,392,284	2,342,669
End of year	<u>\$ 53,702,328</u>	<u>\$ 52,711,520</u>	<u>\$ 990,808</u>	<u>\$ 47,734,953</u>	<u>\$ 4,976,567</u>

The main component of the overall change in the Hospital's net assets is its operating income. In 2009, the Hospital reported operating income of approximately \$6,424,000. In 2010, the Hospital reported operating income of approximately \$3,288,000, which is a \$3,136,000 decrease from 2009. The primary reason for the decrease in operating income was an increase in operating expenses of approximately \$9,392,000 compared to an increase in patient service revenues of approximately \$6,031,000 in 2010. Medicaid Disproportionate Share Program and Upper Payment Limit funds recorded in 2010 were approximately \$1,673,000 compared to approximately \$1,724,000 in 2009.

# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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Nonoperating revenues (expenses) consist primarily of investment income, interest expense and Foundation revenue and expenses. The nonoperating items changed from a net expense of approximately \$1,447,000 in 2009 to a net expense of approximately \$2,297,000 in 2010.

Operating income in 2009 was approximately \$3,324,000 higher than 2008 as volumes in patient service revenue outpaced the corresponding increases in expenses.

### STATEMENT OF CASH FLOWS

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

	2010	2009	2010-2009 Change	2008	2009-2008 Change
Cash flows from					
Operating	\$ 7,172,562	\$ 10,873,971	\$ (3,701,409)	\$ 10,383,585	\$ 490,386
Capital and related financing	3,089,664	(11,901,523)	14,991,187	(8,669,979)	(3,231,544)
Investing	(3,159,172)	(1,133,698)	(2,025,474)	(2,008,356)	874,658
Change in cash and equivalents	<u>\$ 7,103,054</u>	<u>\$ (2,161,250)</u>	<u>\$ 9,264,304</u>	<u>\$ (294,750)</u>	<u>\$ (1,866,500)</u>

Operating activities generated cash of approximately \$7,173,000 in 2010. Capital and related financing activities provided cash of approximately \$3,090,000 in 2010. Two significant components capital and related financing activities include cash used on purchase of capital assets of \$15,807,000 and proceeds from the issuance of debt net of principal payments of \$22,423,000. Investing activities used cash of approximately \$3,159,000 in 2010 mainly due to classification changes between investments and cash equivalents.

2009 generated a decrease in cash and cash equivalents of approximately \$2,161,000 compared to a decrease of \$295,000 in 2008. The main difference related to increases in capital expenditures in 2009 compared to 2008.

### SOURCES OF REVENUE

During 2010, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 55% of the Hospital's gross revenues in 2010, 53% in 2009 and 52% in 2008.

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# WITHAM HEALTH SERVICES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009

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Following is a table of major sources of gross patient revenues for 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	40%	40%	40%
Medicaid	15%	13%	12%
Commercial	38%	40%	42%
Self Pay	7%	7%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## CAPITAL ASSETS

At the end of 2010, the Hospital had approximately \$87,372,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	<u>2010</u>	<u>2009</u>	<u>2010-2009 Change</u>	<u>2008</u>	<u>2009-2008 Change</u>
Land and improvements	\$ 7,018,074	\$ 5,662,409	\$ 1,355,665	\$ 4,464,506	\$ 1,197,903
Buildings and improvements	77,792,023	64,288,346	13,503,677	43,015,266	21,273,080
Equipment	35,377,497	34,648,587	728,910	24,801,751	9,846,836
Construction in progress	368,006	183,946	184,060	14,111,224	(13,927,278)
Total property and equipment	<u>120,555,600</u>	<u>104,783,288</u>	<u>15,772,312</u>	<u>86,392,747</u>	<u>18,390,541</u>
Less accumulated depreciation	<u>33,183,603</u>	<u>27,151,250</u>	<u>6,032,353</u>	<u>24,695,612</u>	<u>2,455,638</u>
Capital assets, net	<u>\$ 87,371,997</u>	<u>\$ 77,632,038</u>	<u>\$ 9,739,959</u>	<u>\$ 61,697,135</u>	<u>\$ 15,934,903</u>

Net capital assets increased by approximately \$9,740,000 in 2010 compared to 2009 as the Hospital continues to expand and improve facilities. The change between 2009 and 2008 was \$15,935,000 as the medical office expansion was completed.

## DEBT

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

# **WITHAM HEALTH SERVICES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 AND 2009**

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### **ECONOMIC OUTLOOK**

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

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

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

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

	2010			2009	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 15,011,577	\$ 2,176,277	\$ -0-	\$ 17,187,854	\$ 9,125,633
Investments	14,678,019	20,062	-0-	14,698,081	14,054,339
Patient accounts receivable, less allowance for uncollectible accounts of \$5,740,000 in 2010 and \$5,291,000 in 2009	11,418,851	-0-	-0-	11,418,851	9,365,263
Other receivables	577,215	81,145	-0-	658,360	713,897
Inventory and other current assets	1,274,139	53,972	-0-	1,328,111	1,416,853
Current portion of assets whose use is limited	2,605,000	-0-	-0-	2,605,000	1,240,000
Total current assets	<u>45,564,801</u>	<u>2,331,456</u>	<u>-0-</u>	<u>47,896,257</u>	<u>35,915,985</u>
<b>Assets whose use is limited</b>					
Held by trustee for debt service and capital	9,799,800	-0-	-0-	9,799,800	5,897,992
Designated for capital improvements	758,897	-0-	-0-	758,897	244,361
Donor restricted	-0-	1,306,095	-0-	1,306,095	1,657,304
Total assets whose use is limited	<u>10,558,697</u>	<u>1,306,095</u>	<u>-0-</u>	<u>11,864,792</u>	<u>7,799,657</u>
Less current portion	<u>2,605,000</u>	<u>-0-</u>	<u>-0-</u>	<u>2,605,000</u>	<u>1,240,000</u>
Noncurrent assets whose use is limited	7,953,697	1,306,095	-0-	9,259,792	6,559,657
<b>Capital assets</b>					
Land and improvements	7,018,074	-0-	-0-	7,018,074	5,662,409
Depreciable capital assets	113,169,520	-0-	-0-	113,169,520	98,936,933
Construction in progress	368,006	-0-	-0-	368,006	183,946
	<u>120,555,600</u>	<u>-0-</u>	<u>-0-</u>	<u>120,555,600</u>	<u>104,783,288</u>
Less accumulated depreciation	<u>33,183,603</u>	<u>-0-</u>	<u>-0-</u>	<u>33,183,603</u>	<u>27,151,250</u>
Capital assets, net	87,371,997	-0-	-0-	87,371,997	77,632,038
<b>Other assets</b>					
Investment in affiliates and other	564,715	-0-	-0-	564,715	1,687,184
Debt issue costs, net of accumulated amortization of \$137,000 in 2010 and \$99,000 in 2009	949,405	-0-	-0-	949,405	461,828
Other	342,911	-0-	-0-	342,911	535,621
Total other assets	<u>1,857,031</u>	<u>-0-</u>	<u>-0-</u>	<u>1,857,031</u>	<u>2,684,633</u>
Total assets	<u>\$ 142,747,526</u>	<u>\$ 3,637,551</u>	<u>\$ -0-</u>	<u>\$ 146,385,077</u>	<u>\$ 122,792,313</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

	2010			2009	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 1,430,842	\$ -0-	\$ -0-	\$ 1,430,842	\$ 3,046,900
Accrued salaries and related liabilities	3,660,776	-0-	-0-	3,660,776	3,099,874
Accrued expenses and other current liabilities	3,560,690	-0-	-0-	3,560,690	2,808,168
Estimated third-party settlements	1,323,758	-0-	-0-	1,323,758	1,331,751
Current portion of long term debt					
Capital lease obligation	1,219,785	-0-	-0-	1,219,785	1,173,739
Loans payable	265,756	-0-	-0-	265,756	2,960,776
Revenue bonds payable	2,605,000	-0-	-0-	2,605,000	1,240,000
Total current liabilities	<u>14,066,607</u>	<u>-0-</u>	<u>-0-</u>	<u>14,066,607</u>	<u>15,661,208</u>
<b>Long term debt, net of current portion</b>					
Capital lease obligation	3,573,439	-0-	-0-	3,573,439	4,693,678
Loans payable	2,503,640	-0-	-0-	2,503,640	15,071,257
Revenue bonds payable	72,539,063	-0-	-0-	72,539,063	34,654,650
Total long term debt	<u>78,616,142</u>	<u>-0-</u>	<u>-0-</u>	<u>78,616,142</u>	<u>54,419,585</u>
Total liabilities	92,682,749	-0-	-0-	92,682,749	70,080,793
<b>Net assets</b>					
Invested in capital assets, net of related debt	4,665,314	-0-	-0-	4,665,314	17,837,938
Restricted					
Trustee held for debt service and capital	9,799,800	-0-	-0-	9,799,800	5,897,992
Internally designated for capital improvements	758,897	-0-	-0-	758,897	244,361
Expendable for donor restriction	-0-	1,306,095	-0-	1,306,095	1,657,304
Total restricted	<u>10,558,697</u>	<u>1,306,095</u>	<u>-0-</u>	<u>11,864,792</u>	<u>7,799,657</u>
Unrestricted	<u>34,840,766</u>	<u>2,331,456</u>	<u>-0-</u>	<u>37,172,222</u>	<u>27,073,925</u>
Total net assets	<u>50,064,777</u>	<u>3,637,551</u>	<u>-0-</u>	<u>53,702,328</u>	<u>52,711,520</u>
Total liabilities and net assets	<u>\$ 142,747,526</u>	<u>\$ 3,637,551</u>	<u>\$ -0-</u>	<u>\$ 146,385,077</u>	<u>\$ 122,792,313</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Revenue</b>					
Net patient service revenue	\$ 76,780,716	\$ -0-	\$ -0-	\$ 76,780,716	\$ 70,750,143
Other operating revenue	6,339,542	-0-	-0-	6,339,542	6,114,123
Total operating revenue	83,120,258	-0-	-0-	83,120,258	76,864,266
<b>Operating expenses</b>					
Salaries and wages	32,442,629	-0-	-0-	32,442,629	29,253,032
Employee benefits	10,714,902	-0-	-0-	10,714,902	9,635,963
Professional medical fees	7,097,850	-0-	-0-	7,097,850	5,642,109
Purchased services	3,646,860	-0-	-0-	3,646,860	3,492,718
Supplies	10,862,444	-0-	-0-	10,862,444	10,240,658
Repairs and maintenance	2,413,147	-0-	-0-	2,413,147	1,915,496
Equipment rental	2,150,719	-0-	-0-	2,150,719	2,239,861
Utilities	1,327,501	-0-	-0-	1,327,501	1,207,649
Depreciation and amortization	6,116,890	-0-	-0-	6,116,890	3,898,481
Insurance	943,689	-0-	-0-	943,689	1,127,225
Other expenses	2,115,456	-0-	-0-	2,115,456	1,787,385
Total operating expenses	79,832,087	-0-	-0-	79,832,087	70,440,577
Operating income	3,288,171	-0-	-0-	3,288,171	6,423,689
<b>Nonoperating revenue (expense)</b>					
Investment income	263,045	68,012	-0-	331,057	387,756
Interest expense	(3,446,659)	-0-	-0-	(3,446,659)	(2,254,159)
Foundation revenue	-0-	338,370	-0-	338,370	271,611
Foundation expense	-0-	(153,821)	24,998	(128,823)	(156,531)
Gain on investment in affiliates	544,125	-0-	-0-	544,125	151,092
Other nonoperating revenue	89,565	-0-	(24,998)	64,567	153,109
Total nonoperating revenue (expense), net	(2,549,924)	252,561	-0-	(2,297,363)	(1,447,122)
Change in net assets	738,247	252,561	-0-	990,808	4,976,567
<b>Net assets</b>					
Beginning of year	49,326,530	3,384,990	-0-	52,711,520	47,734,953
End of year	\$ 50,064,777	\$ 3,637,551	\$ -0-	\$ 53,702,328	\$ 52,711,520

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 74,719,135	\$ -0-	\$ -0-	\$ 74,719,135	\$ 70,347,449
Cash paid for salaries, wages and benefits	(42,596,629)	-0-	-0-	(42,596,629)	(38,556,455)
Cash paid to vendors and suppliers	(31,329,571)	-0-	-0-	(31,329,571)	(27,294,506)
Other receipts, net	6,339,542	40,085	-0-	6,379,627	6,377,483
Net cash flows from operating activities	7,132,477	40,085	-0-	7,172,562	10,873,971
<b>Capital and related financing activities</b>					
Acquisition and construction of capital assets	(15,806,976)	-0-	-0-	(15,806,976)	(13,848,462)
Cash paid for interest on long-term debt	(2,494,222)	-0-	-0-	(2,494,222)	(2,276,484)
Cash paid for debt issuance costs	(1,032,309)	-0-	-0-	(1,032,309)	(64,729)
Proceeds from long-term debt	40,000,000	-0-	-0-	40,000,000	6,156,291
Principal payments for long-term debt	(17,576,829)	-0-	-0-	(17,576,829)	(1,868,139)
Net cash flows from capital and related financing activities	3,089,664	-0-	-0-	3,089,664	(11,901,523)
<b>Investing activities</b>					
Investment income	263,045	68,012	-0-	331,057	387,756
Change in investment in affiliated companies	1,122,469	-0-	-0-	1,122,469	27,150
Other changes in investments and assets whose use is limited	(4,767,180)	154,482	-0-	(4,612,698)	(1,548,604)
Net cash flows from investing activities	(3,381,666)	222,494	-0-	(3,159,172)	(1,133,698)
Net change in cash and cash equivalents	6,840,475	262,579	-0-	7,103,054	(2,161,250)
<b>Cash and cash equivalents</b>					
Beginning of year	14,714,897	2,507,823	-0-	17,222,720	19,383,970
End of year	<u>\$ 21,555,372</u>	<u>\$ 2,770,402</u>	<u>\$ -0-</u>	<u>\$ 24,325,774</u>	<u>\$ 17,222,720</u>
<b>Reconciliation of cash and cash equivalents to the consolidated balance sheets</b>					
Cash and cash equivalents					
Included in current assets	\$ 15,011,577	\$ 2,176,277	\$ -0-	\$ 17,187,854	\$ 9,125,633
In investments	918,378	-0-	-0-	918,378	979,277
In assets whose use is limited - held by trustee	4,866,520	-0-	-0-	4,866,520	5,897,992
In assets whose use is limited - designated	758,897	-0-	-0-	758,897	244,361
In assets whose use is limited - donor restricted	-0-	594,125	-0-	594,125	975,457
Total cash and cash equivalents	<u>\$ 21,555,372</u>	<u>\$ 2,770,402</u>	<u>\$ -0-</u>	<u>\$ 24,325,774</u>	<u>\$ 17,222,720</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 3,288,171	\$ -0-	\$ -0-	\$ 3,288,171	\$ 6,423,689
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	6,116,890	-0-	-0-	6,116,890	3,898,481
Bad debts	12,188,235	-0-	-0-	12,188,235	10,279,603
Changes in operating assets and liabilities					
Patient accounts receivable	(14,241,823)	-0-	-0-	(14,241,823)	(11,036,454)
Other receivables	9,822	45,715	-0-	55,537	220,582
Inventory and other current assets	81,809	6,933	-0-	88,742	38,580
Accounts payable	(1,616,058)	(12,563)	-0-	(1,628,621)	803,938
Accrued salaries and related liabilities	560,902	-0-	-0-	560,902	332,540
Accrued expenses and other current liabilities	752,522	-0-	-0-	752,522	(441,145)
Estimated third-party settlements	(7,993)	-0-	-0-	(7,993)	354,157
Net cash flows from operating activities	<u>\$ 7,132,477</u>	<u>\$ 40,085</u>	<u>\$ -0-</u>	<u>\$ 7,172,562</u>	<u>\$ 10,873,971</u>

See accompanying notes to consolidated financial statements.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Witham Health Services (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code (IC) 16-22. The Hospital provides short-term inpatient and outpatient health care. 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 (Association). The Association was created pursuant to the provisions of the IC 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital. The Association is a blended component unit consolidated with the Hospital for financial reporting purposes.

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

The consolidated financial statements include certain prior year summarized comparative information in total but not by discrete component unit. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Hospital's consolidated financial statements for the year ended December 31, 2009, from which the summarized information was derived.

#### Blended Component Units

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

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# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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 consolidated financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

### Use of Estimates

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

### Enterprise Fund Accounting

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

### Accounting Standards

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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.

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 consolidated statements of revenues, expense and changes in net assets.

### Patient Accounts Receivable and Net Patient Service Revenue

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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, 2007.

Amounts for unresolved cost reports for 2008 through 2010 are reflected in estimated third-party settlements on the consolidated balance sheets. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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

### 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.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Assets Whose Use is Limited

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

### 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.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

The Hospital's consolidated statements of revenues, expenses and changes in net assets distinguish between operating and 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.

### Consolidated Statements of Cash Flows

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

	<u>2010</u>	<u>2009</u>
Supplemental cash flows information		
Cash paid for interest	\$ 2,494,222	\$ 2,276,484
Equipment acquired through capital lease	\$ -0-	\$ 5,963,205

### Costs of Borrowing

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

### Debt Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of debt over the life of the debt. Debt issue costs were approximately \$949,000 and \$462,000 as of December 31, 2010 and 2009, respectively. Accumulated amortization as of December 31, 2010 and 2009 was approximately \$137,000 and \$99,000, 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 generally 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).

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

Creekside is a corporation subject to Federal and state income taxes. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxed currently due plus deferred taxes. However, the effects of recording a deferred tax provision have been deemed immaterial and have not been recorded in the accompanying consolidated financial statements.

These entities have filed their federal and state income tax returns for periods through December 31, 2009. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Compensated Absences

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

### Risk Management

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

### Medical Malpractice

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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

### Litigation

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

### Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$648,966 and \$474,596 for 2010 and 2009, respectively.

### 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 25, 2011.

## 2. NET PATIENT SERVICE REVENUE

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### Medicare

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

### Medicaid

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

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$1,673,000 and \$1,724,000 during 2010 and 2009, respectively. These programs are Federal programs administered by the State of Indiana.

### Other Payors

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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The following is a summary of net patient service revenue for 2010 and 2009:

	2010	2009
Inpatient routine services	\$ 12,201,509	\$ 11,389,003
Inpatient ancillary services	35,123,670	30,234,460
Outpatient ancillary services	165,844,017	143,273,639
Gross patient service revenue	<u>213,169,196</u>	<u>184,897,102</u>
Contractual allowances	119,047,228	99,463,092
Charity care	5,153,017	4,404,264
Bad debts	12,188,235	10,279,603
Deductions from revenue	<u>136,388,480</u>	<u>114,146,959</u>
Net patient service revenue	<u>\$ 76,780,716</u>	<u>\$ 70,750,143</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 2010 and 2009 was \$5,153,017 and \$4,404,264, respectively.

### 3. INVESTMENTS

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

	2010	2009
Cash and cash equivalents	\$ 918,378	\$ 979,277
Certificates of deposit	20,062	20,118
US Government securities	13,759,641	13,054,944
	<u>\$ 14,698,081</u>	<u>\$ 14,054,339</u>

### 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.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

Donor restricted – Amounts designated by donor restrictions.

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

	<u>2010</u>	<u>2009</u>
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 4,866,520	\$ 5,897,992
Certificates of deposit	2,000,000	-0-
US Government securities	<u>2,933,280</u>	<u>-0-</u>
Total held by trustee for debt service and capital	9,799,800	5,897,992
Designated for capital improvements		
Cash and cash equivalents	758,897	244,361
Donor restricted		
Cash and cash equivalents	594,125	975,457
Mutual funds - fixed income	125,155	131,020
Mutual funds - equity	425,164	402,932
Corporate equity securities	91,952	20,798
US Government securities	69,699	-0-
Corporate debt securities	<u>-0-</u>	<u>127,097</u>
	<u>1,306,095</u>	<u>1,657,304</u>
Total assets whose use is limited	<u>\$ 11,864,792</u>	<u>\$ 7,799,657</u>

## 5. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Market value approximated cost as of December 31, 2010 and 2009.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Hospital's investments generally are reported at fair value. As of December 31, 2010 and 2009, 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, 2010					
Investment Maturities (in years)					
Carrying Amount	Less than 1	1-5	6-10	More than 10	
US Government securities	\$ 16,762,620	\$ -0-	\$ 15,280,690	\$ 1,481,930	\$ -0-
Certificates of deposit	2,020,062	20,062	2,000,000	-0-	-0-
Mutual funds - fixed income	125,155	125,155	-0-	-0-	-0-
Mutual funds - equity	425,164	425,164	-0-	-0-	-0-
Corporate equity securities	91,952	91,952	-0-	-0-	-0-
	\$ 19,424,953	\$ 662,333	\$ 17,280,690	\$ 1,481,930	\$ -0-

  

December 31, 2009					
Investment Maturities (in years)					
Carrying Amount	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-

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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 24,325,774	\$ 17,222,720
Investments	19,424,953	13,756,909
	<u>\$ 43,750,727</u>	<u>\$ 30,979,629</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 17,187,854	\$ 9,125,633
Investments	14,698,081	14,054,339
Held by trustee	9,799,800	5,897,992
Designated	758,897	244,361
Donor restricted	1,306,095	1,657,304
	<u>\$ 43,750,727</u>	<u>\$ 30,979,629</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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 are as follows:

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments				
U.S. Government securities	\$ 13,759,641	\$ -0-	\$ 13,759,641	\$ -0-
Cash and cash equivalents	918,378			
Certificates of deposit at contract value	20,062			
Total investments	<u>\$ 14,698,081</u>			
Assets whose use is limited				
Mutual funds - fixed income	\$ 125,155	\$ 125,155	\$ -0-	\$ -0-
Mutual funds - equity	425,164	425,164	-0-	-0-
Corporate equity securities	91,952	91,952	-0-	-0-
U.S. Government securities	3,002,979	-0-	3,002,979	-0-
	<u>3,645,250</u>	<u>\$ 642,271</u>	<u>\$ 3,002,979</u>	<u>\$ -0-</u>
Cash and equivalents	6,219,542			
Certificates of deposit at contract value	2,000,000			
Total assets whose use is limited	<u>\$ 11,864,792</u>			
December 31, 2009				
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
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	<u>\$ 14,054,339</u>			
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-
	<u>681,847</u>	<u>\$ 554,750</u>	<u>\$ 127,097</u>	<u>\$ -0-</u>
Cash and equivalents	7,117,810			
Total assets whose use is limited	<u>\$ 7,799,657</u>			

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

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

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Long term debt: Fair value of the Hospital fixed rate revenue bonds is estimated using discounted cash flows based on current fixed rates available to similar entities with similar credit ratings. As of December 31, 2010, the carrying value of the fixed rate long term debt was \$74,920,000 with a fair value of approximately \$76,933,000. The carrying value of loans payable and capital lease obligations approximates fair value based on incremental borrowing rates of similarly rated entities.

### 7. CAPITAL ASSETS

A summary of property and equipment for 2010 and 2009 follow:

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

  

	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>

Depreciation and amortization expense for 2010 and 2009 was \$6,116,890 and \$3,898,481, respectively.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 8. LONG TERM DEBT

A summary of long term debt is as follows:

- In 2010, the Hospital issued Lease Rental Revenue Bonds, Series 2010, in the amount of \$40 million through the Boone County Hospital Association. The proceeds from the Series 2010 Bonds were used for the acquisition, construction, renovation and equipping of certain improvements to the Hospital facilities. Additionally, \$15,000,000 was used to retire a construction term loan entered into during 2008.

The Series 2010 Bond payments are due in semiannual installments beginning January 2011 through January 2030 ranging from \$595,000 to \$1,505,000, with interest rates between 3% and 5.25%. The Series 2010 Bonds are secured by net revenues and certain assets held by the trustee.

- Revenue Bonds, Series 2005 with annual principal payments ranging from \$1,190,000 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.

A portion of the Series 2005 Bonds 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.

- Loan payable with local financial institutions, due in monthly installments at an interest rate of 4.50%, due through 2023, secured by real property.
- In December 2009, through the Indiana Finance Authority, the Hospital entered into capital lease obligation, due in monthly installments with interest at 3.85% through December 2014 secured by equipment. The total cost of the equipment was \$5,963,205 as of December 31, 2010 and 2009 with accumulated amortization of \$1,128,132 and \$-0-, respectively.

Certain long term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2010, the Hospital believed it was in compliance with the ratios.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The following represents a progression for long term debt for 2010 and 2009:

	December 31, 2009	Additional Borrowings	Payments	December 31, 2010	Current Portion
2005 Revenue bonds	\$ 36,160,000	\$ -0-	\$ 1,240,000	\$ 34,920,000	\$ 1,305,000
2010 Revenue bonds	-0-	40,000,000	-0-	\$ 40,000,000	1,300,000
Loans payable	18,032,033	-0-	15,262,636	2,769,397	265,756
Capital lease obligation	5,867,417	-0-	1,074,193	4,793,224	1,219,785
	<u>60,059,450</u>	<u>\$ 40,000,000</u>	<u>\$ 17,576,829</u>	82,482,621	<u>\$ 4,090,541</u>
Unamortized loss on bond defeasance	(2,637,241)			(2,474,113)	
Unamortized bond premium	<u>2,371,891</u>			<u>2,698,175</u>	
	<u>\$ 59,794,100</u>			<u>\$ 82,706,683</u>	
	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>2,640,407</u>			<u>2,371,891</u>	
	<u>\$ 49,648,131</u>			<u>\$ 59,794,100</u>	

Scheduled principal and interest repayments on long term debt and payments on loans payable for the years succeeding December 31, 2010 are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	\$ 4,090,541	\$ 3,907,779	\$ 7,998,320
2012	4,382,000	3,620,554	8,002,554
2013	4,441,809	3,431,610	7,873,419
2014	4,528,506	3,256,907	7,785,413
2015	4,394,589	3,070,219	7,464,808
2016-2020	18,698,253	12,976,891	31,675,144
2021-2025	23,511,923	7,973,615	31,485,538
2026-2030	<u>18,435,000</u>	<u>1,971,613</u>	<u>20,406,613</u>
	<u>\$ 82,482,621</u>	<u>\$ 40,209,188</u>	<u>\$ 122,691,809</u>

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 9. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Total rent expense for all operating leases for 2010 and 2009 was \$2,150,719 and \$2,239,861, respectively. The following is a schedule of future minimum non cancelable lease payments expiring through 2014 for the years succeeding December 31, 2010:

<u>Year Ending December 31,</u>	
2011	\$ 135,778
2012	127,902
2013	86,683
2014	<u>20,202</u>
	<u>\$ 370,565</u>

### 10. PENSION PLAN

#### Plan Description

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

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was \$1,169,636 and \$1,179,994 for 2010 and 2009, respectively.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 11. CONCENTRATION OF CREDIT RISK

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenues from patients and third-party payors as of and for the years ended December 31, 2010 and 2009 was as follows:

	Receivables		Revenues	
	2010	2009	2010	2009
Medicare	31%	28%	40%	40%
Medicaid	9%	12%	15%	13%
Commercial	34%	31%	38%	40%
Self-Pay and other	26%	29%	7%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### 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 was recorded on the equity method at \$1,271,982 as of December 31, 2009. During 2010 through the issuance of the Series 2010 Bonds, the Hospital purchased the real estate and the improvements of Bremner Duke Anson Development, LLC and dissolved the joint venture.

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

The Hospital has a 33%-equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at \$214,410 and \$225,250 as of December 31, 2010 and 2009, 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 \$350,300 and \$189,948 as of December 31, 2010 and 2009, respectively.

# WITHAM HEALTH SERVICES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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.

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 \$5,870,766 and \$5,029,760 in 2010 and 2009, respectively. Changes in health claim liabilities for 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of year	\$ 977,228	\$ 708,065
Incurred claims and changes in estimates	5,870,766	5,029,760
Claim payments	<u>(5,837,130)</u>	<u>(4,760,597)</u>
Unpaid claims, end of year	<u>\$ 1,010,864</u>	<u>\$ 977,228</u>

**SUPPLEMENTARY INFORMATION**

# WITHAM HEALTH SERVICES

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

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

See report of independent auditors on pages 1 and 2.

## WITHAM HEALTH SERVICES

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

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

See report of independent auditors on pages 1 and 2.

## WITHAM HEALTH SERVICES

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

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

See report of independent auditors on pages 1 and 2.

# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current assets</b>						
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>
<b>Assets whose use is limited</b>						
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>
<b>Capital assets</b>						
Land and improvements	5,662,409	-0-	-0-	-0-	-0-	5,662,409
Depreciable capital assets	93,752,219	5,000,915	183,799	-0-	-0-	98,936,933
Construction in progress	183,946	-0-	-0-	-0-	-0-	183,946
	<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>
<b>Other assets</b>						
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	1,994,879	-0-	-0-	88,755	(1,535,450)	548,184
Total other assets	<u>5,105,984</u>	<u>-0-</u>	<u>-0-</u>	<u>88,755</u>	<u>(2,497,543)</u>	<u>2,697,196</u>
Total assets	<u>\$ 117,108,872</u>	<u>\$ 3,812,402</u>	<u>\$ 466,583</u>	<u>\$ 517,009</u>	<u>\$ (2,497,543)</u>	<u>\$ 119,407,323</u>

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# WITHAM HEALTH SERVICES

## TOTAL HOSPITAL – CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2009

LIABILITIES AND NET ASSETS	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Current liabilities</b>						
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	2,853,602	43,569	1,404,719	41,728	(1,535,450)	2,808,168
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>13,362,762</u>	<u>2,335,351</u>	<u>1,456,817</u>	<u>41,728</u>	<u>(1,535,450)</u>	<u>15,661,208</u>
<b>Long term debt, net of current portion</b>						
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	<u>67,782,347</u>	<u>2,335,351</u>	<u>1,456,817</u>	<u>41,728</u>	<u>(1,535,450)</u>	<u>70,080,793</u>
<b>Net assets</b>						
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>\$ 117,108,872</u>	<u>\$ 3,812,402</u>	<u>\$ 466,583</u>	<u>\$ 517,009</u>	<u>\$ (2,497,543)</u>	<u>\$ 119,407,323</u>

See report of independent auditors on pages 1 and 2.

## WITHAM HEALTH SERVICES

### TOTAL HOSPITAL – CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Hospital	MOP, LLC	Creekside	CIHA	Eliminations	Total Hospital
<b>Revenue</b>						
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>
<b>Operating expenses</b>						
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
<b>Nonoperating income (expense)</b>						
Investment income	242,149	-0-	17	-0-	-0-	242,166
Interest expense	(2,225,483)	(37,148)	-0-	-0-	-0-	(2,262,631)
Gain on investment in affiliates	(162,840)	-0-	-0-	-0-	313,932	151,092
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
<b>Net assets</b>						
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>

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