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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

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

March 13, 2012

Board of Directors  
Dunn Memorial Hospital  
1600 23<sup>rd</sup> Street  
Bedford, IN 47421

We have reviewed the audit report prepared by Blue & Company, LLC, Independent Public Accountants, for the period January 1, 2010 to June 30, 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 Dunn Memorial Hospital, as of June 30, 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

# **DUNN MEMORIAL HOSPITAL**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2010 AND DECEMBER 31, 2009**

*CPAs / ADVISORS*



# DUNN MEMORIAL HOSPITAL

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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  
Dunn Memorial Hospital  
Bedford, Indiana

We have audited the accompanying balance sheets of Dunn Memorial Hospital (Hospital) at June 30, 2010 and December 31, 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the period from January 1, through June 30, 2010 and for the year ending December 31, 2009. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Hospital are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Lawrence County, Indiana that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Lawrence County, Indiana, and the changes in financial position and cash flows for the period ending June 30, 2010 and for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2010 and December 31, 2009, and its results of operations, changes in net assets and cash flows for the period from January 1, 2010 through June 30, 2010 and the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Dunn Memorial Hospital  
Bedford, Indiana

As described in Note 2 to the combined financial statements, on June 30, 2010, the Hospital completed an asset purchase agreement with St. Vincent Health System (St. Vincent).

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based upon our audits, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Blue & Co., LLC*

February 2, 2012

**REQUIRED SUPPLEMENTARY INFORMATION**

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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This section of Dunn Memorial Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance for the period from January 1, 2010 through June 30, 2010 and the years ended December 31, 2009 and 2008. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

### ST. VINCENT HEALTH SYSTEM TRANSACTION

On June 30, 2010, the Hospital completed an asset purchase agreement with St. Vincent Health System (St. Vincent). The Hospital's Board of Governors and County's governance body approved the transaction.

The asset purchase agreement between the Hospital and St. Vincent resulted in St. Vincent purchasing substantially all of the assets, other than cash, investments, cost report settlements, a portion of prepaid expenses, and accounts receivable, and assuming certain liabilities of the Hospital for approximately \$8 million. Excluded liabilities that St. Vincent did not assume include medical malpractice claims occurring prior to the close date, liabilities related to the health insurance and retirement plans, and the existing long term debt (with the exception of capital leases), as well as various other liabilities described in the purchase agreement. The transaction did not include the Dunn Memorial Hospital Foundation. A portion of the proceeds from the purchase transaction were placed into an escrow account which was used to extinguish the existing bonds payable. Subsequently, remaining cash and investments were transferred to the County of Lawrence. In connection with the purchase, the Hospital adopted all financial policies of St. Vincent. See Note 2 to the combined financial statements for further details.

### FINANCIAL HIGHLIGHTS

- The Hospital reported a decrease in net assets of approximately \$9,888,000 for the period from January 1, through June 30, 2010 and \$1,269,000 and the year ended December 31, 2009 respectively.
- Approximately \$8,778,000 is reflected in the Statement of Revenues and Expenses and Changes in Net Assets as a loss on sale of the Hospital for for the period from January 1, through June 30, 2010 related to the asset purchase agreement with St. Vincent.

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues and Expenses and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities and the financial position of the Hospital.

The 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 and the changes in net assets for the year are accounted for in the Statement of Revenues and Expenses and Changes in Net Assets.

Finally, the 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 the change in cash balance during the year.

### THE HOSPITAL'S BALANCE SHEETS

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 and changes in net assets 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.

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### HOSPITAL'S BALANCE SHEET

Table 1: A summary of the Hospital's Balance Sheet at June 30, 2010, and December 31, 2009 and 2008 is presented below:

	2010	2009	2008
<b>Assets</b>			
Current assets	\$ 8,342,545	\$ 11,429,211	\$ 12,136,175
Capital assets, net	407,746	17,696,634	18,589,762
Assets whose use is limited, net of current portion	115,625	659,406	112,215
Other assets	133,947	1,190,995	1,243,082
Total assets	<u>\$ 8,999,863</u>	<u>\$ 30,976,245</u>	<u>\$ 32,081,234</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,152,671	\$ 7,029,327	\$ 6,630,428
Long-term debt	-0-	7,211,672	7,446,381
Total liabilities	2,152,671	14,240,999	14,076,809
<b>Net assets</b>			
Invested in capital assets, net of related debt	407,746	9,920,112	10,869,897
Restricted - debt service reserve funds	-0-	1,088,431	3,700,000
Unrestricted	6,439,446	5,726,703	3,434,528
Total net assets	<u>6,847,192</u>	<u>16,735,246</u>	<u>18,004,425</u>
Total liabilities and net assets	<u>\$ 8,999,863</u>	<u>\$ 30,976,245</u>	<u>\$ 32,081,234</u>

The significant changes in the Hospital's assets, liabilities, and net assets relating to the current period were current assets decreased primarily related to a decrease in cash and cash equivalents of approximately \$1,999,000; the amortization of physician receivables and the reduction of physician receivables included in other assets and a reduction of net patient accounts receivable of approximately \$867,000. This decrease was partially offset by an increase in third party receivables of approximately \$1,531,000 for 2010. Net capital assets decreased primarily due to depreciation expense exceeding capital asset additions and the sale of substantially all of the fixed assets to St. Vincent. Assets whose use is limited decreased primarily as a result of the restricted investments being removed as the bonds were paid in full.

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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Current liabilities decreased by approximately \$4,875,000 due to a decrease in third-party liabilities of approximately \$1,129,000 and the assumption of certain liabilities such as accrued payroll and paid time off by St. Vincent as part of the acquisition. Significant changes in assets, liabilities and net assets relating from 2008 to 2009 were current assets decreasing primarily to a decrease in patient accounts receivable and a movement of the cash and assets whose use is limited amount from current to long-term. Capital assets, net decreased primarily due to depreciation expense exceeding capital asset additions. Assets whose use is limited increased primarily as a result of income on investments and additional funds added to investments.

### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2: A summary of the Hospital's Operations and Changes in Net Assets for the period from January 1, through June 30, 2010, and for the years ended December 31, 2009 and 2008 is presented below:

	2010	2009	2008
<b>Operating revenue</b>			
Net patient service revenue	\$ 17,574,202	\$ 34,803,037	\$ 36,411,946
Other operating revenue	648,523	1,226,198	1,451,838
Total operating revenue	<u>18,222,725</u>	<u>36,029,235</u>	<u>37,863,784</u>
<b>Operating expenses</b>			
Salaries and benefits	11,094,540	22,244,228	23,024,579
Purchased services and professional fees	3,099,903	4,910,697	4,638,494
Depreciation and amortization	909,863	1,871,003	2,242,471
Other operating expenses	4,091,037	7,807,314	9,067,582
Total operating expenses	<u>19,195,343</u>	<u>36,833,242</u>	<u>38,973,126</u>
Operating loss	(972,618)	(804,007)	(1,109,342)
Nonoperating expense	<u>(8,915,436)</u>	<u>(465,172)</u>	<u>(278,714)</u>
Change in net assets before discontinued operations	(9,888,054)	(1,269,179)	(1,388,056)
Loss from operations of discontinued component	-0-	-0-	(114,552)
Change in net assets	(9,888,054)	(1,269,179)	(1,502,608)
Net assets beginning of year	16,735,246	18,004,425	19,507,003
Net assets end of year	<u>\$ 6,847,192</u>	<u>\$ 16,735,246</u>	<u>\$ 18,004,395</u>

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# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### OPERATING AND FINANCIAL PERFORMANCE

#### Revenue

Net patient revenue for the period from January 1, through June 30, 2010 as compared to the year ended December 31, 2009 decreased by approximately \$17,229,000. This large decrease is due to only six months of activity for 2010 vs. a full year of activity for 2009.

The Hospital's net patient service revenue decreased approximately \$1,609,000 during 2009, a 4.4% decrease as compared to 2008.

#### Expenses

Operating expenses as a percentage of net revenue were consistent for the period from January 1, through June 30, 2010, as compared to the year ended December 31, 2009 with the exception of purchased services and professional fees which increased somewhat related to the transaction with St. Vincents. The large increase in non-operating expenses during 2010 is related to the loss on the asset sale transaction as well.

During 2009, operating expenses decreased approximately \$2,140,000 or 5.5%. This reduction of expenses reduced the cost to provide Medicare services and resulted in a significant increase to third-party liability at December 31, 2009. The reduction in Medicare reimbursements; caused by reducing costs to provide those services were less than the overall cost reduction efforts and the Hospital did receive a net benefit by reducing operating expenses.

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### SOURCES OF REVENUE

For the period from January 1, through June 30, 2010, and the years ended December 31, 2009 and 2008, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenue from the various periods is detailed below:

Payor Mix	For The Period From January 1, Through June 30, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Medicare	45%	44%	45%
Medicaid	13%	12%	12%
Blue Cross/Anthem	20%	19%	20%
Self pay	8%	9%	9%
Commercial insurance	14%	16%	14%
Total	100%	100%	100%

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### THE HOSPITAL'S 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?"

	For The Period From January 1, Through June 30, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>Cash flows from activities</b>			
Operating	\$ (1,652,720)	\$ 1,429,245	\$ 4,502,332
Non-capital financing	18,712	107,486	(123,897)
Capital and related financing	(1,464,695)	(1,649,578)	(2,324,662)
Investing	10,837	17,151	101,904
Total	<u>(3,087,866)</u>	<u>(95,696)</u>	<u>2,155,677</u>
<b>Cash and cash equivalents</b>			
Beginning of year	<u>5,164,772</u>	<u>5,260,468</u>	<u>3,104,791</u>
End of year	<u>\$ 2,076,906</u>	<u>\$ 5,164,772</u>	<u>\$ 5,260,468</u>

Changes in the Hospital's cash flows for the period from January 1, through June 30, 2010 as compared to the year ended December 31, 2009 are primarily related to the increase in cash used by operating activities by approximately \$3,084,000. Changes in the Hospital's cash flows for the year ended December 31, 2009 as compared to the year ended December 31, 2008 were less cash provided by operating activities and less cash was used for capital and related financing activities.

# DUNN MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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### CAPITAL ASSETS

Capital assets have not been added in a significant capacity since 2008, which is the timeframe the Hospital was restructuring its long-term finances. On June 30, 2010 as a part of the transaction with St. Vincent, the Hospital sold substantially all of its capital assets, with the exception of those certain assets specifically excluded from the sale. Capital assets at June 30, 2010 and December 31, 2009 and 2008 were as follows:

	June 30, 2010	December 31, 2009	December 31, 2008
Land and improvements	\$ 161,855	\$ 1,570,774	\$ 1,574,980
Buildings and improvements	830,843	27,219,106	27,124,052
Equipment	-0-	30,036,463	29,624,330
Construction in progress	-0-	450,234	572,031
Total capital assets	992,698	59,276,577	58,895,393
Less accumulated depreciation	584,952	41,579,943	40,305,631
Capital assets, net	<u>\$ 407,746</u>	<u>\$ 17,696,634</u>	<u>\$ 18,589,762</u>

### DEBT

On June 30, 2010, the 2009 revenue bonds were paid in full with proceeds received from St. Vincent related to their acquisition of the significant assets of the Hospital. St. Vincent assumed certain liabilities in accordance with the agreement which included the capital lease obligations of the Hospital.

See the notes to the financial statements related to the year ended December 31, 2009 for disclosure of the use of a bank letter of credit to pay off the 2003 revenue bonds. The Hospital also entered into a Forbearance Agreement with Fifth Third bank, which expired in May 2009. The Hospital then obtained long-term financing through the issuance of Revenue Bonds issued by the Indiana Bond Bank.

More detailed information about the Hospital's long-term debt is presented in the notes to the financial statements.

# **DUNN MEMORIAL HOSPITAL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010  
AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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## **ECONOMIC OUTLOOK**

Due to the transaction with St Vincent which assumed the capital assets and certain other assets of the Hospital and certain liabilities in accordance with the purchase agreement, the County does not have an ongoing economic interest in those assets and liabilities related to the Hospital after June 30, 2010. St. Vincent did not assume certain assets and liabilities related to operations of the Hospital in the past under previous management. Certain of these liabilities such as malpractice claims could result in a liability that is unknown at this time and could impact the County at a future date.

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

This financial report is designed to provide our 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 business administration by telephoning 812-275-3331.

# DUNN MEMORIAL HOSPITAL

## COMBINED BALANCE SHEETS

JUNE 30, 2010

(WITH COMPARATIVE COMBINED TOTALS AT DECEMBER 31, 2009)

	ASSETS			
	2010		Total reporting entity	2009
	Hospital	Foundation		Total reporting entity
<b>Current assets</b>				
Cash and cash equivalents	\$ 2,076,906	\$ 21,478	\$ 2,098,384	\$ 4,086,183
Current portion of assets whose use is limited	-0-	-0-	-0-	\$ 544,216
Patient accounts receivable, less allowance for uncollectible accounts of \$4,292,748 in 2010 and \$4,229,976 in 2009	4,365,137	-0-	4,365,137	5,231,734
Other receivables	194,198	-0-	194,198	270,015
Estimated third-party settlements	1,531,252	-0-	1,531,252	-0-
Other current assets	175,052	100	175,152	1,306,905
<b>Total current assets</b>	<b>8,342,545</b>	<b>21,578</b>	<b>8,364,123</b>	<b>11,439,053</b>
<b>Assets whose use is limited</b>				
Board designated funds	115,625	-0-	115,625	115,190
Debt service reserve funds	-0-	-0-	-0-	1,088,431
<b>Total assets whose use is limited</b>	<b>115,625</b>	<b>-0-</b>	<b>115,625</b>	<b>1,203,621</b>
Less current portion of assets whose use is limited	-0-	-0-	-0-	(544,216)
<b>Assets whose use is limited net of current portion</b>	<b>115,625</b>	<b>-0-</b>	<b>115,625</b>	<b>659,406</b>
<b>Investments</b>	<b>-0-</b>	<b>402,995</b>	<b>402,995</b>	<b>412,654</b>
<b>Capital assets</b>				
Land	161,855	-0-	161,855	742,282
Construction in progress	-0-	-0-	-0-	450,234
Depreciable capital assets, net	245,891	-0-	245,891	16,504,118
	407,746	-0-	407,746	17,696,634
<b>Other assets</b>	<b>133,947</b>	<b>-0-</b>	<b>133,947</b>	<b>1,190,995</b>
<b>Total assets</b>	<b>\$ 8,999,863</b>	<b>\$ 424,573</b>	<b>\$ 9,424,436</b>	<b>\$ 31,398,741</b>

	LIABILITIES AND NET ASSETS			
	2010		Total reporting entity	2009
	Hospital	Foundation		Total reporting entity
<b>Current liabilities</b>				
Notes payable	\$ -0-	\$ -0-	\$ -0-	\$ 369,833
Current portion of capital leases and long-term debt	0	-0-	-0-	564,850
Accounts payable	1,224,171	3,601	1,227,772	3,113,639
Salaries, wages and related payables	573,934	-0-	573,934	1,483,086
Estimated third-party settlements	-0-	-0-	-0-	1,128,923
Other current liabilities	354,566	-0-	354,566	370,895
<b>Total current liabilities</b>	<b>2,152,671</b>	<b>3,601</b>	<b>2,156,272</b>	<b>7,031,226</b>
<b>Noncurrent liabilities</b>				
Long-term debt	-0-	-0-	-0-	6,630,000
Long-term capital lease	-0-	-0-	-0-	581,672
<b>Total noncurrent liabilities</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>7,211,672</b>
<b>Total liabilities</b>	<b>2,152,671</b>	<b>3,601</b>	<b>2,156,272</b>	<b>14,242,898</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	407,746	-0-	407,746	9,920,112
Restricted - debt service reserve funds	-0-	-0-	-0-	1,088,431
Unrestricted	6,439,446	420,972	6,860,418	6,147,300
<b>Total net assets</b>	<b>6,847,192</b>	<b>420,972</b>	<b>7,268,164</b>	<b>17,155,843</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,999,863</b>	<b>\$ 424,573</b>	<b>\$ 9,424,436</b>	<b>\$ 31,398,741</b>

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2009

ASSETS			
	Hospital	Foundation	Total reporting entity
<b>Current Assets</b>			
Cash and cash equivalents	\$ 4,076,341	\$ 9,842	\$ 4,086,183
Current portion of assets whose use is limited	544,216	-0-	544,216
Patient accounts receivable, less allowance for uncollectible accounts of \$4,229,976	5,231,734	-0-	5,231,734
Other receivables	270,015	-0-	270,015
Other current assets	1,306,905	0	1,306,905
Total current assets	11,429,211	9,842	11,439,053
<b>Assets whose use is limited</b>			
Board designated funds	115,190	-0-	115,190
Debt service reserve funds	1,088,431	-0-	1,088,431
Total assets whose use is limited	1,203,621	-0-	1,203,621
Less current portion of assets whose use is limited	(544,216)	-0-	(544,216)
Assets whose use is limited net of current portion	659,406	-0-	659,406
<b>Investments</b>	-0-	412,654	412,654
<b>Capital assets</b>			
Land	742,282	-0-	742,282
Construction in progress	450,234	-0-	450,234
Depreciable capital assets, net	16,504,118	-0-	16,504,118
	17,696,634	-0-	17,696,634
<b>Other Assets</b>	1,190,995	-0-	1,190,995
Total assets	\$ 30,976,245	\$ 422,496	\$ 31,398,741

LIABILITIES AND NET ASSETS			
	Hospital	Foundation	Total reporting entity
<b>Current liabilities</b>			
Notes payable	\$ 369,833	\$ -0-	\$ 369,833
Current portion of capital leases and long-term debt	564,850	-0-	564,850
Accounts payable	3,111,740	1,899	3,113,639
Salaries, wages and related payables	1,483,086	-0-	1,483,086
Estimated third-party settlements	1,128,923	-0-	1,128,923
Other current liabilities	370,895	-0-	370,895
Total current liabilities	7,029,327	1,899	7,031,226
<b>Noncurrent Liabilities</b>			
Long-term debt	6,630,000	-0-	6,630,000
Long-term capital lease	581,672	-0-	581,672
Total noncurrent liabilities	7,211,672	-0-	7,211,672
Total liabilities	14,240,999	1,899	14,242,898
<b>Net Assets</b>			
Invested in capital assets, net of related debt	9,920,112	-0-	9,920,112
Restricted - debt service reserve funds	1,088,431	-0-	1,088,431
Unrestricted	5,726,703	420,597	6,147,300
Total net assets	16,735,246	420,597	17,155,843
Total liabilities and net assets	\$ 30,976,245	\$ 422,496	\$ 31,398,741

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			Total reporting entity	2009
	Hospital	Foundation	Eliminations		Total reporting entity
<b>Revenue</b>					
Net patient service revenue	\$ 17,574,202	\$ -0-	\$ -0-	\$ 17,574,202	\$ 34,803,037
Other	648,523	49,196	(13,603)	684,116	1,263,170
Total operating revenue	<u>18,222,725</u>	<u>49,196</u>	<u>(13,603)</u>	<u>18,258,318</u>	<u>36,066,207</u>
<b>Operating expenses</b>					
Salaries and wages	8,835,719	-0-	-0-	8,835,719	18,005,148
Employee benefits	2,258,821	-0-	-0-	2,258,821	4,239,080
Purchased services and professional fees	3,099,903	-0-	-0-	3,099,903	4,910,697
Supplies and other	3,814,027	39,183	(13,603)	3,839,607	7,194,223
Insurance	277,010	-0-	-0-	277,010	647,701
Depreciation and amortization	909,863	-0-	-0-	909,863	1,871,003
Total operating expenses	<u>19,195,343</u>	<u>39,183</u>	<u>(13,603)</u>	<u>19,220,923</u>	<u>36,867,852</u>
Operating income (loss)	(972,618)	10,013	-0-	(962,605)	(801,645)
<b>Nonoperating income (expenses)</b>					
Investment income	11,272	(9,638)	-0-	1,634	100,704
Non-capital contributions and other	18,712	-0-	-0-	18,712	107,486
Loss on sale of the Hospital	(8,777,914)	-0-	-0-	(8,777,914)	-0-
Interest expense	(167,506)	-0-	-0-	(167,506)	(594,849)
Total nonoperating income (expenses), net	<u>(8,915,436)</u>	<u>(9,638)</u>	<u>-0-</u>	<u>(8,925,074)</u>	<u>(386,659)</u>
Change in net assets	(9,888,054)	375	-0-	(9,887,679)	(1,188,304)
<b>Net assets</b>					
Beginning of year	16,735,246	420,597	-0-	17,155,843	18,344,147
End of year	<u>\$ 6,847,192</u>	<u>\$ 420,972</u>	<u>\$ -0-</u>	<u>\$ 7,268,164</u>	<u>\$ 17,155,843</u>

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Hospital	Foundation	Eliminations	Total reporting entity
<b>Revenue</b>				
Net patient service revenue	\$ 34,803,037	\$ -0-	\$ -0-	\$ 34,803,037
Other	1,226,198	58,670	(21,698)	1,263,170
Total operating revenue	36,029,235	58,670	(21,698)	36,066,207
<b>Operating expenses</b>				
Salaries and wages	18,005,148	-0-	-0-	18,005,148
Employee benefits	4,239,080	-0-	-0-	4,239,080
Purchased services and professional fees	4,910,697	-0-	-0-	4,910,697
Supplies and other	7,159,613	56,308	(21,698)	7,194,223
Insurance	647,701	-0-	-0-	647,701
Depreciation and amortization	1,871,003	-0-	-0-	1,871,003
Total operating expenses	36,833,242	56,308	(21,698)	36,867,852
Operating income (loss)	(804,007)	2,362	-0-	(801,645)
<b>Nonoperating income (expenses)</b>				
Investment income	22,191	78,513	-0-	100,704
Non-capital contributions and other	107,486	-0-	-0-	107,486
Interest expense	(594,849)	-0-	-0-	(594,849)
Total nonoperating income (expenses), net	(465,172)	78,513	-0-	(386,659)
Change in net assets	(1,269,179)	80,875	-0-	(1,188,304)
<b>Net assets</b>				
Beginning of year	18,004,425	339,722	-0-	18,344,147
End of year	\$ 16,735,246	\$ 420,597	\$ -0-	\$ 17,155,843

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			2009	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Operating activities</b>					
Cash received from patient services	\$ 15,780,624	\$ -0-	\$ -0-	\$ 15,780,624	\$ 36,151,890
Cash paid for salaries, wages and benefits	(12,783,308)	-0-	-0-	(12,783,308)	(22,231,796)
Cash paid to vendors and suppliers	(6,904,336)	(37,581)	-0-	(6,941,917)	(13,172,569)
Other receipts and payments, net	2,254,300	49,196	-0-	2,303,496	681,061
Net cash flows from operating activities	(1,652,720)	11,615	-0-	(1,641,105)	1,428,586
<b>Non-capital financing activities</b>					
Non-capital contributions	18,712	-0-	-0-	18,712	107,486
Net cash flows from non-capital financing activities	18,712	-0-	-0-	18,712	107,486
<b>Capital and related financing activities</b>					
Payments on note payable	(488,808)	-0-	-0-	(488,808)	-0-
Proceeds from note payable	118,975	-0-	-0-	118,975	(303,975)
Payments on long-term debt	(171,983)	-0-	-0-	(171,983)	(466,374)
Interest on long-term debt	(167,506)	-0-	-0-	(167,506)	(600,528)
Proceeds from the sale of the Hospital	8,136,370	-0-	-0-	8,136,370	-0-
Loss on sale of the Hospital	(8,777,914)	-0-	-0-	(8,777,914)	-0-
Purchase of capital assets	(113,829)	-0-	-0-	(113,829)	(278,701)
Net cash flows from capital and related financing activities	(1,464,695)	-0-	-0-	(1,464,695)	(1,649,578)
<b>Investing activities</b>					
Investment income (loss)	11,272	(9,638)	-0-	1,634	100,704
Other changes in assets whose use is limited and investments	(435)	9,659	-0-	9,224	(83,535)
Net cash flows from investing activities	10,837	21	-0-	10,858	17,169
Net change in cash and cash equivalents	(3,087,866)	11,636	-0-	(3,076,230)	(96,337)
<b>Cash and cash equivalents</b>					
Beginning of year	5,164,772	9,842	-0-	5,174,614	5,270,951
End of year	<u>\$ 2,076,906</u>	<u>\$ 21,478</u>	<u>\$ -0-</u>	<u>\$ 2,098,384</u>	<u>\$ 5,174,614</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 2,076,906	\$ 21,478	\$ -0-	\$ 2,098,384	\$ 4,086,183
In assets whose use is limited	-0-	-0-	-0-	-0-	1,088,431
Total cash and cash equivalents	<u>\$ 2,076,906</u>	<u>\$ 21,478</u>	<u>\$ -0-</u>	<u>\$ 2,098,384</u>	<u>\$ 5,174,614</u>

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010 (WITH COMPARATIVE COMBINED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009)

	2010			2009	
	Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>					
Operating income (loss) from operations	\$ (972,618)	\$ 10,013	\$ -0-	\$ (962,605)	\$ (801,645)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation and amortization	909,863	-0-	-0-	909,863	1,871,003
Provision for bad debts	2,839,991	-0-	-0-	2,839,991	4,023,591
Changes in operating assets and liabilities					
Patient accounts receivable	(1,973,394)	-0-	-0-	(1,973,394)	(3,903,608)
Other receivables	75,817	-0-	-0-	75,817	(46,074)
Estimated third-party payor settlements	(2,660,175)	-0-	-0-	(2,660,175)	1,228,870
Other current assets	2,300,152	(100)	-0-	2,300,052	(105,527)
Other assets	1,529,960	-0-	-0-	1,529,960	(124,056)
Accounts payable	(1,887,569)	1,702	-0-	(1,885,867)	(770,055)
Salaries, wages and related payable	(1,688,768)	-0-	-0-	(1,688,768)	12,432
Other current liabilities	(125,979)	-0-	-0-	(125,979)	43,655
Net cash flows from operating activities	<u>\$ (1,652,720)</u>	<u>\$ 11,615</u>	<u>\$ -0-</u>	<u>\$ (1,641,105)</u>	<u>\$ 1,428,586</u>
<b>Noncash capital and related financing activities</b>					
Debt refinancing	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 7,020,000
Capital lease obligation incurred for use of equipment	\$ 216,647	\$ -0-	\$ -0-	\$ 216,647	\$ 523,031
Change in other assets - physician loans and guarantees	\$ 498,566	\$ -0-	\$ -0-	\$ 498,566	\$ 433,677
Assumption of capital leases by St. Vincent	\$ (951,186)	\$ -0-	\$ -0-	\$ (951,186)	\$ -0-
Assumption of accrued payroll and PTO by St. Vincent	\$ (779,616)	\$ -0-	\$ -0-	\$ (779,616)	\$ -0-
Change in current assets due to sale of Hospital	\$ 1,168,299	\$ -0-	\$ -0-	\$ 1,168,299	\$ -0-
Change in other assets due to sale of Hospital	\$ 535,049	\$ -0-	\$ -0-	\$ 535,049	\$ -0-
Change in other current liabilities due to sale of Hospital	\$ (109,650)	\$ -0-	\$ -0-	\$ (109,650)	\$ -0-
Cash placed in escrow for payment of bonds (including debt reserve funds)	\$ (6,870,000)	\$ -0-	\$ -0-	\$ (6,870,000)	\$ -0-

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF CASH FLOWS DECEMBER 31, 2009

	Hospital	Foundation	Eliminations	Total reporting entity
<b>Operating activities</b>				
Cash received from patient services	\$ 36,151,890	\$ -0-	\$ -0-	\$ 36,151,890
Cash paid for salaries, wages and benefits	(22,231,796)	-0-	-0-	(22,231,796)
Cash paid to vendors and suppliers	(13,113,240)	(59,329)	-0-	(13,172,569)
Other receipts and payments, net	622,391	58,670	-0-	681,061
Net cash flows from operating activities	1,429,245	(659)	-0-	1,428,586
<b>Non-capital financing activities</b>				
Non-capital contributions	107,486	-0-	-0-	107,486
Net cash flows from non-capital financing activities	107,486	-0-	-0-	107,486
<b>Capital and related financing activities</b>				
Payments on note payable	(303,975)	-0-	-0-	(303,975)
Payments on long-term debt	(466,374)	-0-	-0-	(466,374)
Interest on long-term debt	(600,528)	-0-	-0-	(600,528)
Purchase of capital assets	(278,701)	-0-	-0-	(278,701)
Net cash flows from capital and related financing activities	(1,649,578)	-0-	-0-	(1,649,578)
<b>Investing activities</b>				
Investment income	22,191	78,513	-0-	100,704
Other changes in assets whose use is limited and investments	(5,040)	(78,495)	-0-	(83,535)
Net cash flows from investing activities	17,151	18	-0-	17,169
Net change in cash and cash equivalents	(95,696)	(641)	-0-	(96,337)
<b>Cash and cash equivalents</b>				
Beginning of year	5,260,468	10,483	-0-	5,270,951
End of year	<u>\$ 5,164,772</u>	<u>\$ 9,842</u>	<u>\$ -0-</u>	<u>\$ 5,174,614</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>				
Cash and cash equivalents				
In current assets	\$ 4,076,341	\$ 9,842	\$ -0-	\$ 4,086,183
In assets whose use is limited	1,088,431	-0-	-0-	1,088,431
Total cash and cash equivalents	<u>\$ 5,164,772</u>	<u>\$ 9,842</u>	<u>\$ -0-</u>	<u>\$ 5,174,614</u>

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## COMBINED STATEMENT OF CASH FLOWS DECEMBER 31, 2009

	Hospital	Foundation	Eliminations	Total reporting entity
<b>Reconciliation of operating income to net cash flows from operating activities</b>				
Operating income (loss) from operations	\$ (804,007)	\$ 2,362	\$ -0-	\$ (801,645)
Adjustments to reconcile operating loss to net cash flows from operating activities				
Depreciation and amortization	1,871,003	-0-	-0-	1,871,003
Provision for bad debts	4,023,591	-0-	-0-	4,023,591
Changes in operating assets and liabilities				
Patient accounts receivable	(3,903,608)	-0-	-0-	(3,903,608)
Other receivables	(46,074)	-0-	-0-	(46,074)
Estimated third-party payor settlements	1,228,870	-0-	-0-	1,228,870
Other current assets	(106,803)	1,276	-0-	(105,527)
Other assets	(124,056)	-0-	-0-	(124,056)
Accounts payable	(765,758)	(4,297)	-0-	(770,055)
Salaries, wages and related payable	12,432	-0-	-0-	12,432
Other current liabilities	43,655	-0-	-0-	43,655
Net cash flows from operating activities	\$ 1,429,245	\$ (659)	\$ -0-	\$ 1,428,586
<b>Noncash capital and related financing activities</b>				
Capital lease obligation incurred for use of equipment	\$ 523,031	\$ -0-	\$ -0-	\$ 523,031
Change in other assets - physician loans and guarantees	\$ 433,677	\$ -0-	\$ -0-	\$ 433,677
Debt refinancing	\$ 7,020,000	\$ -0-	\$ -0-	\$ 7,020,000

See accompanying notes to financial statements.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Reporting Entity

Dunn Memorial Hospital (Hospital) is an acute-care hospital located in Bedford, Indiana. The Hospital was a component unit of Lawrence County (County) and the Board of County Commissioners appointed members of the Board of Trustees of the Hospital. The Hospital primarily earned revenues by providing inpatient, outpatient and emergency care services to patients in the Lawrence County area. It also operated a home health agency in the same geographic area. On June 30, 2010, the Hospital completed an asset purchase agreement with St. Vincent Health System (St. Vincent). The Hospital's Board of Governors and County's governance body approved the transaction. Subsequent to the transaction, the remaining assets and liabilities reside with the County. The ongoing operations of the component unit of Dunn Memorial Hospital have been, in effect discontinued, subsequent to June 30, 2010.

On July 14, 1978, the Board of County Commissioners of Lawrence County, upon written request of the Hospital Board of Trustees, created the Dunn Memorial Hospital Association (Association). The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing the constructing hospital facilities for the Hospital. Accordingly, the transactions of the Association were combined with the Hospital.

For financial purposes, the Hospital's reporting entity consists of the primary government and the component unit organization for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and it is financially accountable to the primary government (discrete component unit).

The financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Lawrence County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Lawrence County as of June 30, 2010 and December 31, 2009, and the changes in its financial position or, where applicable, its cash flows for period ended June 30, 2010 and year ended December 31, 2009.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Discrete Component Unit

Discretely presented component units 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. The discretely presented component unit is:

*Dunn Memorial Foundation, Inc. (Foundation):* A separate not-for-profit entity organized to support the operations of the Hospital. All significant transactions between the Hospital and the Foundation have been eliminated. Complete financial statements of the Foundation may be obtained from its Administrative Office at 1616 23<sup>rd</sup> St, Bedford, IN 47421.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 used enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, 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.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Risk Management

The Hospital was 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 and dental, and accident benefits. Commercial insurance coverage was purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts available for operating purposes with original maturity dates of 90 days or less from the date of purchase. 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

Investments are reported at fair value, as determined by quoted market prices. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

### Patient Accounts Receivable and Net Patient Service Revenue

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The Hospital is a provider of services to patients entitled to coverage under Medicare. The Hospital was granted Critical Access Status by Medicare. The Hospital is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2007. Management believes adequate provision has been made in the financial statements for any adjustments.

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

### Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the period from January 1, through June 30, 2010 and for the year ended December 31, 2009 were \$79,273 and \$155,676, respectively.

### Inventories

Inventories consist mainly of medical, pharmaceutical and dietary supplies and are stated at the lower of cost, using the first-in, first-out (FIFO) method or market.

### Assets Whose Use is Limited and Investments

Investments in certificates of deposit are carried at contract value. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Assets whose use is limited are stated at contract value, which approximates fair value in the financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for capital improvements and debt service. These investments consist primarily of cash and cash equivalents and certificates of deposit. Investment income, to the extent not capitalized, is reported as nonoperating income in the statements of revenues, expenses and changes in net assets.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Capital Assets and Depreciation

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at historical cost. Contributed or donated assets are reported at estimated fair value at the time received. Capital assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Range of Useful Lives</u>
Land improvements	\$ 500	Straight line	2-25 years
Buildings and improvements	\$ 500	Straight line	5-40 years
Equipment	\$ 500	Straight line	2-20 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

### Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest in 2010 and 2009.

### Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs were being amortized over the term of the respective debt. Due to the transaction with St. Vincent, these costs were expensed at June 30, 2010 as part of the related asset purchase transaction.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Compensated Absences

The Hospital's policies permitted most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. As part of the transaction, St. Vincent assumed these liabilities.

### 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 net assets.

### Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as non-operating revenues. Amounts restricted for capital acquisitions are reported after non-operating revenues and expenses.

### Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

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# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Operating Revenues and Expenses

The reporting entity's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### 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 the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). However, the Hospital is subject to federal income tax on any unrelated business taxable income.

### Physician Loans and Guarantees

The Hospital periodically will loan physicians money or guarantee certain incomes to physicians to attract physicians to the Hospital's market. The income guarantees generally provide for payments to the physicians for a period of years, with contractual provisions that the advances are forgiven if the physician continues to practice in the Hospital market for three years subsequent to the income guaranty period. The loans are generally due over a five-year period with varying interest rates. The Hospital reports the income guarantees net of any forgiven amounts over the three-year forgiveness period. Loans and income guarantees that are not believed to be collectible or realized have been reserved to their estimated net realizable value.

The total amount of the physician loans and guarantees, which are included in other assets, is \$133,947 and \$632,513 at June 30, 2010 and December 31, 2009, respectively.

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through February 2, 2012, which is the date the combined financial statements were issued

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 2. ST. VINCENT HEALTH SYSTEM TRANSACTION

On June 30, 2010, the Hospital completed an asset purchase agreement with St. Vincent Health System (St. Vincent). The Hospital's Board of Governors and County's governance body approved the transaction.

The asset purchase agreement between the Hospital and St. Vincent resulted in St. Vincent purchasing substantially all of the assets, other than cash, investments, cost report settlements, a portion of prepaid expenses, accounts receivable, and assuming certain liabilities of the Hospital for approximately \$8 million. Excluded liabilities that St. Vincent did not assume include medical malpractice claims occurring prior to the close date, liabilities related to the health insurance and retirement plans, and the existing long term debt (with the exception of capital leases), as well as various other liabilities described in the purchase agreement. The transaction did not include the Dunn Memorial Hospital Foundation. A portion of the proceeds from the purchase transaction were placed into an escrow account which was used to extinguish the existing bonds payable. All remaining cash and investments were transferred to the County of Lawrence. There is a receivable from St. Vincent to the Hospital in the amount of \$2,517 related to flexible spending account forfeitures as of June 30, 2010.

In connection with the purchase, the Hospital adopted all financial policies of St. Vincent.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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A summary of the loss calculation related to the sale is as follows:

Consideration Received

Purchase Price	\$ 8,136,370	
Less: Miscellaneous credits pursuant to the sale	(167,618)	
Less: Redemption price of 2009 bonds	<u>(5,946,909) *</u>	
Net cash received		<u>2,021,843</u>

\*Redemption price consists of:

Principal outstanding prior to refunding	\$ 6,870,000	
Add: Accrued interest as of June 30, 2010	165,340	
Less: 2009 debt service reserve funds applied to payoff	<u>(1,088,431)</u>	
	<u>\$ 5,946,909</u>	

Consideration given

Current assets	1,113,587	
Other assets	535,049	
Current liabilities - excluding current portion of long term debt	(848,888)	
Assets whose use is limited	1,088,431	
Capital assets, net	16,732,764	
Debt - 2009 revenue bonds including current portion	(6,870,000)	
Debt - capital leases including current portion	<u>(951,186)</u>	
		<u>10,799,757</u>
Net loss on sale		<u>\$ (8,777,914)</u>

### 3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

*Medicare* – On December 30, 2005, the Hospital elected the Medicare critical access hospital (CAH) designation, which changes the payment system for the care of Medicare beneficiaries. As a CAH, inpatient and outpatient services are paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with a final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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*Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. In connection with the Indiana Medicaid program, the Hospital receives additional funding through the Hospital Care for the Indigent, the Medicaid Disproportionate Share (DSH), and the Upper Payment Limit (UPL) programs. These payments are received by the Hospital on a periodic basis.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. The following is a summary of net patient service revenue for the period from January 1, through June 30, 2010 and for the year ended December 31, 2009:

	<u>2010</u>	<u>2009</u>
Patient service revenue		
Inpatient	\$ 12,341,678	\$ 21,263,262
Outpatient	24,495,010	50,100,834
Gross service patient revenue	<u>36,836,688</u>	<u>71,364,096</u>
Deductions from revenue		
Contractual allowances	15,708,670	31,662,245
Charity care	713,825	875,223
Provision for bad debts	2,839,991	4,023,591
Total deductions from revenue	<u>19,262,486</u>	<u>36,561,059</u>
Net patient service revenue	<u>\$ 17,574,202</u>	<u>\$ 34,803,037</u>

#### 4. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care provided during the period ended June 30, 2010 and the year ended December 31, 2009 was \$713,825 and \$875,223, respectively.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 are as follows:

	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Foundation				
Investments				
Mutual funds	\$230,847	\$ 230,847	\$ -0-	\$ -0-
Equities	153,582	153,582	-0-	-0-
Fixed Income Securities	8,657	-0-	8,657	-0-
	393,086	\$ 384,429	\$ 8,657	\$ -0-
Cash and equivalents	9,909			
Total investments	\$402,995			

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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

	Total	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Foundation				
Investments				
Mutual funds	\$233,256	\$ 233,256	\$ -0-	\$ -0-
Equities	161,502	161,502	-0-	-0-
Fixed Income Securities	8,592	-0-	8,592	-0-
	403,350	\$ 394,758	\$ 8,592	\$ -0-
 Cash and equivalents	 9,304			
Total investments	\$412,654			

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

Cash and cash equivalents, accounts payable, accrued expenses and estimated third-party settlements: The carrying amount reported in the balance sheets for cash and cash equivalents, accounts payable, accrued expenses and estimated third-party settlements approximate fair value due to the short-term maturities.

Debt and Capital Leases: The carrying amount reported in the balance sheets for debt and capital leases approximates fair value based upon current borrowing rates.

## 6. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME

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. The reporting entity's investments generally are reported at fair value, as discussed in Note 1. At June 30, 2010 and December 31, 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.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

June 30, 2010

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
<b>Hospital</b>					
Certificates of Deposit	\$ 115,625	\$ 115,625	\$ -0-	\$ -0-	\$ -0-
<b>Foundation</b>					
Money market funds	\$ 9,909	\$ 9,909	\$ -0-	\$ -0-	\$ -0-
Mutual funds	230,847	230,847	-0-	-0-	-0-
Equities	153,582	153,582	-0-	-0-	-0-
Fixed income securities	8,657	-0-	-0-	-0-	8,657
	<u>\$ 402,995</u>	<u>\$ 394,338</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,657</u>

December 31, 2009

	Carrying amount	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
<b>Hospital</b>					
Certificates of Deposit	\$ 115,190	\$ 115,190	\$ -0-	\$ -0-	\$ -0-
<b>Foundation</b>					
Money market funds	\$ 9,304	\$ 3,112	\$ -0-	\$ -0-	\$ -0-
Mutual funds	233,256	233,256	-0-	-0-	-0-
Equities	161,502	161,502	-0-	-0-	-0-
Fixed income securities	8,592	-0-	5,002	-0-	8,520
	<u>\$ 412,654</u>	<u>\$ 397,870</u>	<u>\$ 5,002</u>	<u>\$ -0-</u>	<u>\$ 8,520</u>

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 U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. 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.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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Deposits and investments consisted of the following at June 30, 2010 and December 31, 2009:

Hospital	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 2,076,906	\$ 5,164,772
Investments	115,625	115,190
	<u>\$ 2,192,531</u>	<u>\$ 5,279,962</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,076,906	\$ 4,076,341
Debt service reserve funds	-0-	1,088,431
Board designated	115,625	115,190
	<u>\$ 2,192,531</u>	<u>\$ 5,279,962</u>
Foundation		
Carrying amount		
Deposits	\$ 21,478	\$ 9,842
Investments	402,995	412,654
	<u>\$ 424,473</u>	<u>\$ 422,496</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 21,478	\$ 9,842
Investments	402,995	412,654
	<u>\$ 424,473</u>	<u>\$ 422,496</u>

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 7. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at June 30, 2010 and December 31, 2009, consisted of the following amounts:

	<u>2010</u>	<u>2009</u>
<u>Patient accounts receivable</u>		
Hospital		
Receivable from patients and their insurance carriers	\$ 8,430,844	\$ 9,305,058
Receivable from Medicare	3,465,987	2,292,559
Receivable from Medicaid	<u>1,341,967</u>	<u>1,205,329</u>
Total patient accounts receivable	13,238,797	12,802,946
Less allowance for contractual agreements and uncollectible amounts	<u>8,873,660</u>	<u>7,571,212</u>
Patient accounts receivable, net	<u>\$ 4,365,137</u>	<u>\$ 5,231,734</u>
<u>Accounts payable and accrued expenses</u>		
Hospital		
Payable to suppliers and other	\$ 1,224,171	\$ 3,111,740
Payable to employees (including payroll taxes and benefits)	573,934	1,483,086
Other payables	<u>354,566</u>	<u>370,895</u>
Total accounts payable and accrued expenses	<u>\$ 2,152,671</u>	<u>\$ 4,965,721</u>
Foundation		
Payable to suppliers	<u>\$ 3,601</u>	<u>\$ 1,899</u>

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

### 8. CAPITAL ASSETS

A summary of capital assets at June 30, 2010 and December 31, 2009 is as follows:

	Balance December 31, 2009	Additions	Retirements & Transfers	Balance June 30, 2010
Hospital				
Land	\$ 742,282	\$ -0-	\$ (580,427)	\$ 161,855
Land improvements	828,492	-0-	(828,492)	-0-
Buildings and improvements	27,219,106	39,057	(26,427,320)	830,843
Equipment	30,036,463	283,697	(30,320,160)	-0-
Construction in progress	450,234	7,722	(457,956)	-0-
Total capital assets	59,276,577	330,476	(58,614,355)	992,698
Less accumulated depreciation				
Land improvements	683,066	11,426	(694,492)	-0-
Buildings and improvements	14,455,939	405,980	(14,276,967)	584,952
Equipment	26,440,938	469,194	(26,910,132)	-0-
Total accumulated depreciation	41,579,943	886,600	(41,881,591)	584,952
Hospital capital assets, net	\$ 17,696,634	\$ (556,124)	\$ (16,732,764)	\$ 407,746
	Balance December 31, 2008	Additions	Retirements & Transfers	Balance December 31, 2009
Hospital				
Land	\$ 746,488	\$ -0-	\$ (4,206)	\$ 742,282
Land improvements	828,492	-0-	-0-	828,492
Buildings and improvements	27,124,052	56,114	38,940	27,219,106
Equipment	29,624,330	761,113	(348,980)	30,036,463
Construction in progress	572,031	-0-	(121,797)	450,234
Total capital assets	58,895,393	817,227	(436,043)	59,276,577
Less accumulated depreciation				
Land improvements	660,131	22,935	-0-	683,066
Buildings and improvements	13,739,859	754,377	(38,297)	14,455,939
Equipment	25,905,641	884,277	(348,980)	26,440,938
Total accumulated depreciation	40,305,631	1,661,589	(387,277)	41,579,943
Hospital capital assets, net	\$ 18,589,762	\$ (844,362)	\$ (48,766)	\$ 17,696,634

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

### 9. NOTES PAYABLE

The Hospital periodically borrows funds from banks to finance certain operating expenses. The note payable bears interest at 6% at June 30, 2010, is unsecured and matures December 1, 2010.

The following is a summary of the short-term note payable to bank activity for the period from January 1, through June 30, 2010 and for the year ended December 31, 2009.

	Balance December 31, 2009	Additional Borrowings	Payments	Balance June 30, 2010
Notes payable	\$ 369,833	\$ 118,975	\$ 488,808	\$ -0-

	Balance December 31, 2008	Additional Borrowings	Payments	Balance December 31, 2009
Notes payable	\$ 673,808	\$ -0-	\$ 303,975	\$ 369,833

### 10. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the Hospital at June 30, 2010 and December 31, 2009 as follows:

	Balance December 31, 2009	Additional Borrowings	Payments	Balance December 31, 2010	Current Portion	Total Long-Term Debt
Revenue bonds payable	\$ 6,870,000	\$ -0-	\$ 6,870,000	\$ -0-	\$ -0-	\$ -0-
Capital lease obligations	906,522	216,647	1,123,169	-0-	-0-	-0-
	\$ 7,776,522	\$ 216,647	\$ 7,993,169	\$ -0-	\$ -0-	\$ -0-

	Balance December 31, 2008	Additional Borrowings	Payments	Balance December 31, 2009	Current Portion	Total Long-Term Debt
Revenue bonds payable	\$ 7,020,000	\$ 7,020,000	\$ 7,170,000	\$ 6,870,000	\$ 240,000	\$ 6,630,000
Capital lease obligations	699,865	523,031	316,374	906,522	324,850	581,672
	\$ 7,719,865	\$ 7,543,031	\$ 7,486,374	\$ 7,776,522	\$ 564,850	\$ 7,211,672

#### Forbearance Agreement

A Forbearance Agreement was signed by the Hospital and a bank in December 2008. The agreement expired May 31, 2009.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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The related Reimbursement Obligation was secured by substantially all of the assets of the Hospital. Interest was paid monthly at a rate of prime plus 5%.

The bank required \$3.7 Million to be held in a debt service reserve fund to pay the fees and payments required by the agreement during the entire Forbearance Period. The funds were used to pay legal fees, one payment of the reimbursement obligation and accrued interest. The Hospital violated specific conditions on their forbearance agreement with the Bank and the full \$3.7 Million was withdrawn and used to pay the above amounts with the remaining portion paid directly on the reimbursement obligation.

### 2009 Revenue Bonds Payable

The Hospital obtained long-term financing as is described herein during 2009. The Indiana Bond Bank (the "Bond Bank") issued tax-exempt Special Program Bonds, Series 2009B-1(Dunn Memorial Hospital Project) in the amount of \$4,040,000 and Taxable Special Program Bonds, Series 2009B-2 (Dunn Memorial Hospital Project) in the amount of \$2,980,000 in 2009 pursuant to the provisions of a Trust Indenture with the Trustee, UMB Bank, N.A. Indianapolis, Indiana in the aggregate principal amount of \$7,020,000. The Series 2009B-1 and the Series 2009B-2 Bonds shall be referred to collectively as the Series 2009 Bonds.

The Bond Bank was the obligor to the bondholders. The bonds were insured. The Series 2009 Bonds are issued by the Bond Bank for the principle purposes of (a) providing funds for the purchase of certain Series 2009 Qualified Obligations of the Qualified Entity (The Lawrence County Hospital Association), (b) funding the Reserve Requirement of the Debt Service Reserve Funds and (c) paying costs related to the issuance of the Series 2009 Bonds.

The Series 2009 Bonds had interest rates ranging from 1.5% to 6.375% to be paid annually through February 1, 2029. Certain Series 2009 Bonds were subject to extraordinary mandatory redemption prior to maturity including upon the sale of all or substantially all of the Premises as defined.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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The Lawrence County Hospital Association (the "Association") was created under the Indiana Code and is authorized to enter into leases with a county in order to provide funds to finance, acquire, renovate, equip and lease land and buildings. As the Qualified Entity, the Association issued Lease Rental Revenue Bonds, Series 2009B and Taxable Lease Rental Revenue Bonds, Series 2009C. The Series 2009B Qualified Obligations and the Series 2009C Qualified Obligations, collectively referred to as the Series 2009 Qualified Obligations were issued pursuant to a Trust Indenture in 2009 between the Association and the Trustee.

The Series 2009 Qualified Obligations were payable from lease rental revenues received by the Qualified Entity as lessor, from Lawrence County, Indiana, acting through its Board of Commissioners and the Board of Trustees of Dunn Memorial Hospital as lessees (collectively, the "Lessee") under a lease agreement entered into in 2009 for certain Hospital additions and improvements (the "Leased Premises").

Pursuant to the Lease, the Lessee had agreed to make payments directly to the Trustee in such amounts and at such times as are sufficient to pay in full, when due, the principal and interest of the Series 2009 Qualified Obligations. The County and the Hospital anticipate that the full lease rental payments will be paid from Hospital revenues. The lease rental revenues are pledged to secure the Series 2009 Qualified Obligations. In addition to the Lease, the Series 2009 Qualified Obligations are secured by certain property taxes that could be appropriated and/or levied by the County as was defined in the agreement.

The Series 2009 Qualified Obligations and the Lease had essentially the same terms with interest rates ranging from 1.5% to 6.375% with interest plus a fixed amount of principle as determined in the agreements, to be paid semi-annually on January 15 and July 15 with final maturity on January 15, 2029. The net proceeds on the Series 2009 Qualified Obligations among other purposes were used to refinance certain debt obligations including the conduit financing that replaced the 2003 Revenue Bonds, to fund the required debt service reserve funds, and to re-finance other existing obligations.

As part of the sale of the Hospital to St. Vincent, money from the sale was placed into escrow for the sole purpose of paying off the 2009 Revenue Bonds. As such, the bonds are considered defeased and the associated debt and cash has been excluded from the balance sheet.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### Capital Lease Obligations

The Hospital was obligated under leases for equipment that was accounted for as capital leases. The capital lease obligations have varying imputed interest rates of 2.1% to 10%, expiring through October 2014. Capital leases were collateralized by leased equipment with a cost of approximately \$1,600,000 million and \$1,700,000 million at June 30, 2010 and 2009, respectively. Accumulated depreciation on capital leases was approximately \$992,000, and \$814,000 at June 30, 2010 and 2009, respectively. As part of the transaction with St. Vincent, all of the leases were assumed by St. Vincent and the associated assets and debt have been excluded from the balance sheet.

## 11. PENSION PLAN

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. Employer contributions to the plan were \$242,672 and \$575,850 for the period ended June 30, 2010, and year ended December 31, 2009, respectively.

## 12. COMMITMENTS AND CONTINGENCIES

### Operating leases - lessee

The Hospital is committed under non-cancelable operating leases for equipment. These leases were assumed by St. Vincent in connection with the transaction. Total rent expense for the period ended June 30, 2010 and year ended December 31, 2009 was \$117,052 and \$270,217, respectively.

### Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegation regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 13. CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third-party payors were as follows:

	Receivables		Revenues	
	2010	2009	2010	2009
Medicaid	10%	11%	13%	12%
Medicare	25%	22%	45%	44%
Blue Cross	13%	11%	20%	19%
Commercial	17%	15%	14%	16%
Self pay and other	35%	41%	8%	9%
	100%	100%	100%	100%

### 14. EMPLOYEE HEALTH PLAN

The Hospital is committed to pay for employees' health care costs. 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 \$60,000 per individual per policy year with an aggregate maximum of approximately \$1,000,000. Employee health insurance benefit expense was \$1,189,777 and \$1,993,662 for the period months ended June 30, 2010 and year ended December 31, 2009, respectively.

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. Changes in the balance of claim liabilities during the past two years are as follows:

	2010	2009
Unpaid claims, beginning of year/period	\$ 300,000	\$ 300,000
Incurred claims and changes in estimates	1,189,777	1,993,662
Claim payments	(1,189,777)	(1,993,662)
Unpaid claims, end of year	\$ 300,000	\$ 300,000

# DUNN MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2010 AND DECEMBER 31, 2009

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### 15. MALPRACTICE COVERAGE

The State of Indiana puts a judgment cap of \$1,250,000 on malpractice claims for those institutions and individual physicians willing to participate in the state funded insurance "pool". The "pool" requires that an institution/physician be responsible for the first \$250,000 of every claim and the state will fund the remaining balance of each claim. In addition to the above, the state also requires that each individual physician carry a policy year aggregate limit of \$750,000 and the institution (based upon size) carry a \$5,000,000 policy year aggregate limit.

The Hospital has eliminated its risk by purchasing an insurance policy that covers all claims for the required \$250,000 occurrence limit and the \$5,000,000 statutory aggregate limit for the institution and a \$250,000 occurrence and \$750,000 statutory aggregate limit for each scheduled physician. In addition to the above limits, the insurance policy also provides an umbrella professional liability limit of \$1,000,000 that pays any claim over the initial \$250,000 for any instances in which the state funded insurance pool does not cover the claim.

### 16. SUBSEQUENT EVENTS

In August and September of 2010, the Dunn Memorial Hospital Foundation, Inc. changed its Bylaws and Articles of Incorporation to support St. Vincent. In conjunction with these changes, the Foundation changed its name to the St. Vincent Dunn Memorial Hospital Foundation.

**OTHER SUPPLEMENTARY INFORMATION**

DUNN MEMORIAL HOSPITAL  
BALANCE SHEET PROGRESSION WITH SALE OF  
HOSPITAL CLOSING ENTRY DETAILS  
JUNE 30, 2010

ASSETS	June 30, 2010 Unadjusted Balance	Period End Adjustments	June 30, 2010 Adjusted Balance	Asset Sale Entry Adjustment	June 30, 2010 Final Balance
<b>Current assets</b>					
Cash and cash equivalents	\$ 543,871	\$ (488,808)	\$ 55,063	\$ 2,021,843	\$ 2,076,906
Current portion of assets whose use is limited	1,088,431	-0-	1,088,431	(1,088,431)	-0-
Patient accounts receivable, net	5,916,611	(1,551,474)	4,365,137	-0-	4,365,137
Other receivables	281,513	(87,315)	194,198	-0-	194,198
Estimated third-party settlements	-0-	1,531,252	1,531,252	-0-	1,531,252
Other current assets	1,345,920	(57,281)	1,288,639	(1,113,587)	175,052
Total current assets	9,176,346	(653,626)	8,522,720	(180,175)	8,342,545
<b>Assets whose use is limited</b>					
Board designated funds	115,625	-0-	115,625	-0-	115,625
Debt service reserve funds	1,088,431	-0-	1,088,431	(1,088,431)	-0-
Total assets whose use is limited	1,204,056	-0-	1,204,056	(1,088,431)	115,625
Less current portion of assets whose use is limited	(1,088,431)	-0-	(1,088,431)	1,088,431	-0-
Assets whose use is limited net of current portion	115,625	0	115,625	-0-	115,625
<b>Capital assets</b>					
Land	742,282	-0-	742,282	(580,427)	161,855
Construction in progress	457,956	-0-	457,956	(457,956)	-0-
Depreciable capital assets, net	15,940,272	-0-	15,940,272	(15,694,381)	245,891
	17,140,510	-0-	17,140,510	(16,732,764)	407,746
<b>Other assets</b>					
	1,065,967	(396,971)	668,996	(535,049)	133,947
Total assets	\$ 27,498,448	\$ (1,050,597)	\$ 26,447,851	\$ (17,447,988)	\$ 8,999,863

DUNN MEMORIAL HOSPITAL  
BALANCE SHEET PROGRESSION WITH SALE OF  
HOSPITAL CLOSING ENTRY DETAILS  
JUNE 30, 2010

LIABILITIES AND NET ASSETS	June 30, 2010 Unadjusted Balance	Period End Adjustments	June 30, 2010 Adjusted Balance	Asset Sale Entry Adjustment	June 30, 2010 Final Balance
<b>Current liabilities</b>					
Notes payable	\$ 488,808	\$ (488,808)	\$ -0-	\$ -0-	\$ -0-
Current portion of capital leases and long-term debt	240,000	-0-	240,000	(240,000)	-0-
Accounts payable	975,701	248,470	1,224,171	-0-	1,224,171
Salaries, wages and related payables	1,512,727	(165,181)	1,347,546	(773,612)	573,934
Estimated third-party settlements	607,494	(607,494)	-0-	-0-	-0-
Other current liabilities	429,842	-0-	429,842	(75,276)	354,566
Total current liabilities	<u>4,254,572</u>	<u>(1,013,013)</u>	<u>3,241,559</u>	<u>(1,088,888)</u>	<u>2,152,671</u>
<b>Noncurrent liabilities</b>					
Long-term debt	6,630,000	-0-	6,630,000	(6,630,000)	-0-
Long-term capital lease	944,678	6,508	951,186	(951,186)	-0-
Total noncurrent liabilities	<u>7,574,678</u>	<u>6,508</u>	<u>7,581,186</u>	<u>(7,581,186)</u>	<u>-0-</u>
Total liabilities	11,829,250	(1,006,505)	10,822,745	(8,670,074)	2,152,671
<b>Net assets</b>					
Invested in capital assets, net of related debt	9,325,832	(6,508)	9,319,324	(8,911,578)	407,746
Restricted - debt service reserve funds	1,088,431	-0-	1,088,431	(1,088,431)	-0-
Unrestricted	5,254,935	(37,584)	5,217,351	1,222,095	6,439,446
Total net assets	<u>15,669,198</u>	<u>(44,092)</u>	<u>15,625,106</u>	<u>(8,777,914)</u>	<u>6,847,192</u>
Total liabilities and net assets	<u>\$ 27,498,448</u>	<u>\$ (1,050,597)</u>	<u>\$ 26,447,851</u>	<u>\$ (17,447,988)</u>	<u>\$ 8,999,863</u>

DUNN MEMORIAL HOSPITAL  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS WITH SALE OF  
HOSPITAL CLOSING ENTRY DETAILS  
FOR THE PERIOD FROM JANUARY 1, THROUGH JUNE 30, 2010

	June 30, 2010 Unadjusted Balance	Period End Adjustments	June 30, 2010 Adjusted Balance	Asset Sale Entry Adjustment	June 30, 2010 Final Balance
<b>Revenue</b>					
Net patient service revenue	\$ 17,316,930	\$ 257,272	\$ 17,574,202	\$ -0-	\$ 17,574,202
Other	646,006	2,517	648,523	-0-	648,523
Total operating revenue	<u>17,962,936</u>	<u>259,789</u>	<u>18,222,725</u>	<u>-0-</u>	<u>18,222,725</u>
<b>Operating expenses</b>					
Salaries and wages	8,995,604	(159,885)	8,835,719	-0-	8,835,719
Employee benefits	2,264,117	(5,296)	2,258,821	-0-	2,258,821
Purchased services and professional fees	2,517,223	582,680	3,099,903	-0-	3,099,903
Supplies and other	3,850,685	(36,658)	3,814,027	-0-	3,814,027
Insurance	264,192	12,818	277,010	-0-	277,010
Depreciation and amortization	886,600	23,263	909,863	-0-	909,863
Total operating expenses	<u>18,778,421</u>	<u>416,922</u>	<u>19,195,343</u>	<u>-0-</u>	<u>19,195,343</u>
Operating income (loss) from continuing operations	(815,485)	(157,133)	(972,618)	-0-	(972,618)
<b>Nonoperating income (expenses)</b>					
Investment income	11,272	-0-	11,272	-0-	11,272
Non-capital contributions	18,712	-0-	18,712	-0-	18,712
Loss on sale of Hospital	-0-	-0-	-0-	(8,777,914)	(8,777,914)
Interest expense	(160,998)	(6,508)	(167,506)	-0-	(167,506)
Total nonoperating income (expenses), net	<u>(131,014)</u>	<u>(6,508)</u>	<u>(137,522)</u>	<u>(8,777,914)</u>	<u>(8,915,436)</u>
Change in net assets	(946,499)	(163,641)	(1,110,140)	(8,777,914)	(9,888,054)
<b>Net assets</b>					
Beginning of year	16,615,697	119,549	16,735,246	-0-	16,735,246
End of year	<u>\$ 15,669,198</u>	<u>\$ (44,092)</u>	<u>\$ 15,625,106</u>	<u>\$ (8,777,914)</u>	<u>\$ 6,847,192</u>