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March 25, 2010

Board of Directors
Woodlawn Hospital
1400 East Ninth Street
Rochester, Indiana 46975

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Woodlawn Hospital, as of December 31, 2008 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

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WOODLAWN HOSPITAL

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 AND 2007

CPAs / ADVISORS

blue

WOODLAWN HOSPITAL

TABLE OF CONTENTS
DECEMBER 31, 2008 AND 2007

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Woodlawn Hospital
Rochester, Indiana

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

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

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

As discussed in Note 1 to the combined financial statements Fulton County Emergency Medical Services, Inc. is a discrete component unit of the Hospital and has been combined with the Hospital.

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

Blue & Co., LLC

September 21, 2009

REQUIRED SUPPLEMENTARY INFORMATION

This section of Woodlawn Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2008. The combined financial statements include the Fulton County EMS, Inc., a discrete component unit. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

Financial Highlights

- The Hospital's net assets increased approximately $1,236,330 or 10% in 2008.

Using This Annual Report

The Hospital's combined financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These combined 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 are accounted for in the Statement of Revenues, 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 Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets increased by $1,236,330 in 2008 compared to 2007.

Assets, Liabilities, and Net Assets

	2008	2007
ASSETS		
Current assets	$ 8,939,555	$ 8,725,896
Assets whose use is limited	3,595,414	3,176,028
Capital assets, net	7,483,510	5,892,579
Other assets	437,078	44,426
Total assets	$ 20,455,557	$ 17,838,929
LIABILITIES		
Current liabilities	$ 4,383,574	$ 3,963,213
Long-term debt	3,237,653	2,277,716
Total liabilities	7,621,227	6,240,929
NET ASSETS		
Invested in capital assets, net of related debt	3,230,236	2,578,300
Restricted		
For debt service	195,188	136,551
Expendable - donor restricted	1,169,448	231,501
Total restricted net assets	1,364,636	368,052
Unrestricted	8,239,458	8,651,648
Total net assets	12,834,330	11,598,000
Total liabilities and net assets	$ 20,455,557	$ 17,838,929

The significant changes in the Hospital's assets were Capital Assets, Net and Assets whose use is limited increasing approximately $1.5 million and $400,000, respectively.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased $1,236,330, as shown below. This increase is made up of different components, which will be discussed in the following paragraphs.

Operating Results and Changes in Net Assets

	2008	2007
Revenues		
Net patient service revenue	$ 33,475,330	$ 29,552,418
Other operating revenue	725,342	683,858
Total operating revenues	34,200,672	30,236,276
Expenses		
Salaries and benefits	20,005,968	17,670,329
Supplies	5,375,827	4,209,182
Depreciation and amortization	1,136,353	1,236,450
Other operating expenses	7,855,563	7,444,702
Total expenses	34,373,711	30,560,663
Operating loss	(173,039)	(324,387)
Non-operating expenses, net	834,950	28,897
Income (loss) from operation of discontinued components	(175,602)	31,048
Net income (loss) before transfers form the county	486,309	(264,442)
Transfers from the county	750,021	729,578
Change in net assets	1,236,330	465,136
Net assets beginning of year	11,598,000	11,132,864
Net assets end of year	$ 12,834,330	$ 11,598,000

Sources of Revenue

During 2008, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented approximately 47% of the Hospital's gross revenues in 2008.

Following is a table of the patient accounts receivable mix as of December 31, 2008 and 2007, respectively:

	2008	2007
Medicare	14%	20%
Medicaid	9%	10%
Blue Cross	14%	11%
Other	26%	29%
Self Pay	37%	30%
	100%	100%

The Hospital's outpatient and physician services represented 82% of the Hospital's gross patient revenue in 2008.

Operating and Financial Performance

The Hospital had a return on equity of 10%, up from last year's 4%. The Hospital's debt service coverage ratio was at approximately 2.1 times.

This following section highlights the major financial factors for 2008:

- The Hospital's patient days increased to 3,518 in 2008 compared to 3,425 in 2007.
- During 2008, the Hospital's net patient services revenue was enhanced by Indiana Medicaid Municipal Hospital Payments of approximately $900,000 compared to the payments of approximately $2,000,000 received in 2007.
- Operating expenses increased $3,813,048 or 12%. This growth is attributable to the increasing costs of resources utilized to provide services to the Hospital's patients.
- Salaries and Benefits along with Supplies represented the largest increase over 2007. Salaries and Benefits expense for 2008 was $2,335,639 or 13% greater than 2007. Supplies expense from 2008 was $1,166,645 or 28% greater than 2007.

Capital Assets

During 2008, the Hospital invested $2,227,008 in capital assets. The change in capital assets is outlined in the following table:

	2008	2007
Land and improvements	$ 750,452	$ 750,452
Buildings and improvements	10,159,102	10,182,474
Equipment	9,137,756	9,162,150
Construction in progress	2,536,896	45,000
Total property and equipment	22,584,206	20,140,076
Less accumulated depreciation	15,100,696	14,247,497
Capital assets, net	$ 7,483,510	$ 5,892,579

Debt

Total long-term debt increased from $3,314,279 to $4,253,274 due to new borrowings.

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 payer 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 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 Administrative offices at 1400 East Ninth Street, Rochester, IN 46975.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008				2007
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Current assets					
Cash and cash equivalents	$ 1,567,448	$ 81,529	$ -0-	$ 1,648,977	$ 749,258
Patient accounts receivable, net of estimated uncollectibles of $3,551,669 and $2,900,156 in 2008 and 2007, respectively	5,464,689	76,381	-0-	5,541,070	5,219,270
Pledge receivable, net of estimated uncollectibles of $36,851 in 2008 and $-0- in 2007	198,878	-0-	-0-	198,878	-0-
Inventories	819,709	-0-	-0-	819,709	906,922
Estimated third party settlements	87,287	-0-	-0-	87,287	1,242,463
Other current assets	755,667	80,044	(192,077)	643,634	607,983
Total current assets	8,893,678	237,954	(192,077)	8,939,555	8,725,896
Assets whose use is limited					
Board designated	2,835,312	-0-	-0-	2,835,312	2,807,976
Trustee held funds, less current portion	195,188	-0-	-0-	195,188	136,551
Donor restricted	564,914	-0-	-0-	564,914	231,501
Total assets whose use is limited	3,595,414	-0-	-0-	3,595,414	3,176,028
Capital assets					
Land	345,223	-0-	-0-	345,223	345,223
Depreciable capital assets, net	4,601,391	-0-	-0-	4,601,391	5,502,356
Construction in progress	2,536,896	-0-	-0-	2,536,896	45,000
Total capital assets	7,483,510	-0-	-0-	7,483,510	5,892,579
Other assets					
Pledge receivable, net of estimated uncollectibles of $82,850 in 2008 and $-0- in 2007	405,656	-0-	-0-	405,656	-0-
Other assets	31,422	-0-	-0-	31,422	44,426
Total other assets	437,078	-0-	-0-	437,078	44,426
Total assets	$ 20,409,680	$ 237,954	$ (192,077)	$ 20,455,557	$ 17,838,929

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

COMBINED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008				2007
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Current liabilities					
Line of credit	$ -0-	$ -0-	$ -0-	$ -0-	$ 525,000
Accounts payable and accrued expenses	1,899,096	210,050	(192,077)	1,917,069	1,230,798
Accrued salaries and related liabilities	1,450,884	-0-	-0-	1,450,884	1,170,852
Current portion of long-term debt					
Capital leases	380,642	-0-	-0-	380,642	364,974
Revenue bonds payable	634,979	-0-	-0-	634,979	671,589
Total current liabilities	4,365,601	210,050	(192,077)	4,383,574	3,963,213
Long-term debt and capital leases					
Capital leases	349,251	-0-	-0-	349,251	729,893
Long-term debt	2,888,402	-0-	-0-	2,888,402	1,547,823
Total long-term debt	3,237,653	-0-	-0-	3,237,653	2,277,716
Total liabilities	7,603,254	210,050	(192,077)	7,621,227	6,240,929
Net assets					
Invested in capital assets, net of related debt	3,230,236	-0-	-0-	3,230,236	2,578,300
Restricted					
For debt service	195,188	-0-	-0-	195,188	136,551
Expendable - donor restricted	1,169,448	-0-	-0-	1,169,448	231,501
Total restricted net assets	1,364,636	-0-	-0-	1,364,636	368,052
Unrestricted	8,211,554	27,904	-0-	8,239,458	8,651,648
Total net assets	12,806,426	27,904	-0-	12,834,330	11,598,000
Total liabilities and net assets	$ 20,409,680	$ 237,954	$ (192,077)	$ 20,455,557	$ 17,838,929

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

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

	2008				2007
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Revenues					
Net patient service revenue	$ 33,080,115	$ 395,215	$ -0-	$ 33,475,330	$ 29,552,418
Other operating revenue	1,537,581	150,534	(962,773)	725,342	683,858
Total operating revenue	34,617,696	545,749	(962,773)	34,200,672	30,236,276
Expenses					
Salaries and wages	15,533,945	559,661	(551,697)	15,541,909	14,420,140
Employee benefits	4,450,036	159,322	(145,299)	4,464,059	3,250,189
Professional fees	4,200,224	55,688	(48,363)	4,207,549	4,109,780
Supplies	5,373,297	48,117	(45,587)	5,375,827	4,209,182
Rent	422,831	147,600	(147,600)	422,831	405,122
Utilities	631,623	-0-	-0-	631,623	545,460
Repairs and maintenance	888,452	-0-	-0-	888,452	786,061
Insurance	462,016	24,227	(24,227)	462,016	463,496
Depreciation and amortization	1,136,353	-0-	-0-	1,136,353	1,236,450
Other	1,205,937	37,155	-0-	1,243,092	1,134,783
Total operating expenses	34,304,714	1,031,770	(962,773)	34,373,711	30,560,663
Operating income (loss)	312,982	(486,021)	-0-	(173,039)	(324,387)
Nonoperating revenue (expense)					
Investment income	104,788	-0-	-0-	104,788	157,071
Interest expense	(154,580)	-0-	-0-	(154,580)	(118,943)
Loss on disposition of assets	17,321	-0-	-0-	17,321	(15,879)
Pledge revenue, net	811,273	-0-	-0-	811,273	-0-
Other nonoperating income (expense)	56,148	-0-	-0-	56,148	6,648
Total nonoperating revenue (expense)	834,950	-0-	-0-	834,950	28,897
Income (Loss) from operations of discontinued components	(175,602)	-0-	-0-	(175,602)	31,048
Net income (loss) before transfers from the county	972,330	(486,021)	-0-	486,309	(264,442)
Transfers from the county	264,000	486,021	-0-	750,021	729,578
Change in net assets	1,236,330	-0-	-0-	1,236,330	465,136
Net assets					
Beginning of year	11,570,096	27,904	-0-	11,598,000	11,132,864
End of year	$ 12,806,426	$ 27,904	$ -0-	$ 12,834,330	$ 11,598,000

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

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

	2008				2007
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Operating activities					
Cash received from patients and third party payors	$ 33,906,976	$ 401,730	$ -0-	$ 34,308,706	$ 29,503,991
Cash paid to employees for wages and benefits	(19,703,949)	(718,983)	-0-	(20,422,932)	(18,228,923)
Cash paid to vendors for goods and services	(13,164,106)	(261,551)	-0-	(13,425,657)	(12,451,113)
Other operating receipts, net	1,537,581	150,534	-0-	1,688,115	1,673,761
Net cash from operating activities	2,576,502	(428,270)	-0-	2,148,232	497,716
Noncapital financing activities					
Other nonoperating	56,148	-0-	-0-	56,148	6,648
Capital and related financing activities					
Transfers from the county	264,000	486,021	-0-	750,021	729,578
Acquisition and construction of capital assets	(2,227,008)	-0-	-0-	(2,227,008)	(333,509)
(Gain)/Loss on disposal of assets	(17,321)	-0-	-0-	(17,321)	15,879
Interest expense on long-term debt	(154,580)	-0-	-0-	(154,580)	(118,943)
Proceeds from sale of fixed assets	37,664	-0-	-0-	37,664	-0-
Proceeds on line of credit, net	-0-	-0-	-0-	-0-	525,000
Payment on line of credit	(525,000)	-0-	-0-	(525,000)	-0-
Proceeds from issuance of long term debt	1,975,558	-0-	-0-	1,975,558	-0-
Principal payments on long-term debt and capital leases, net	(1,036,563)	-0-	-0-	(1,036,563)	(893,353)
Net cash from capital and related financing activities	(1,683,250)	486,021	-0-	(1,197,229)	(75,348)
Investing activities					
Other assets	(405,656)	-0-	-0-	(405,656)	29,121
Discontinued operations	(175,602)	-0-	-0-	(175,602)	31,048
Investment income	104,788	-0-	-0-	104,788	157,071
Pledges	350,550	-0-	-0-	350,550	-0-
Other change in assets whose use is limited, net	(117,626)	-0-	-0-	(117,626)	2,759,483
Net cash from investing activities	(243,546)	-0-	-0-	(243,546)	2,976,723
Net change in cash and cash equivalents	705,854	57,751	-0-	763,605	3,405,739
Cash and cash equivalents					
Beginning of year	3,657,008	23,778	-0-	3,680,786	275,047
End of year	$ 4,362,862	$ 81,529	$ -0-	$ 4,444,391	$ 3,680,786

See accompanying notes to combined financial statements.

WOODLAWN HOSPITAL

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

	2008				2007
	Total Hospital	Fulton Co EMS, Inc.	Eliminations	Total Reporting Entity	Total Reporting Entity
Reconciliation of operating income to net cash from operating activities					
Operating income	$ 312,982	$ (486,021)	$ -0-	$ (173,039)	$ (324,387)
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	1,136,353	-0-	-0-	1,136,353	1,236,450
Provision for bad debt	2,786,581	130,059	-0-	2,916,640	3,201,130
Changes in assets and liabilities					
Patient accounts receivable	(3,114,896)	(123,544)	-0-	(3,238,440)	(2,284,025)
Inventories	87,213	-0-	-0-	87,213	(163,748)
Estimated third-party settlements	1,155,176	-0-	-0-	1,155,176	(965,532)
Other current assets	(272,493)	51,024	192,077	(29,392)	303,235
Accounts payable and accrued expenses	205,554	212	(192,077)	13,689	(647,725)
Accrued salaries and related liabilities	280,032	-0-	-0-	280,032	142,318
Net cash flows from operating activities	$ 2,576,502	$ (428,270)	$ -0-	$ 2,148,232	$ 497,716
Reconciliation of cash and cash equivalents to the balance sheets					
Cash and cash equivalents					
In current assets	$ 1,567,448	$ 81,529	$ -0-	$ 1,648,977	$ 749,258
In assets whose use is limited	2,795,414	-0-	-0-	2,795,414	2,931,528
Total cash and cash equivalents	$ 4,362,862	$ 81,529	$ -0-	$ 4,444,391	$ 3,680,786

See accompanying notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Woodlawn Hospital (the Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Fulton County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Fulton County.

On January 6, 1975, the Board of County Commissioners of Fulton County, upon written request of the Hospital Board of Trustees, created the Fulton County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities of the Hospital.

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

Discrete Component Unit

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

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and 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 Topics of the Codification Standards including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include all cash held in checking, savings and money market accounts 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.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. 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 customer base.

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 payors follows.

Medicare – The Hospital has been granted Critical Access Status under which the Hospital is paid 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. Final determination of amounts earned is subject to review by the fiscal intermediary. Medicare reports have been settled through 2006. Management believes adequate provision has been made in the combined financial statements for any adjustments.

Medicaid – Inpatient and outpatient services rendered to the Medicaid program are paid based upon prospectively determined rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 33 percent and 14 percent, respectively, of the Hospital's net patient revenue for the year ended 2008, and 33 percent and 13 percent, respectively, of the Hospital's net patient revenue, for the year ended 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has 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.

Compassionate 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.

Pledge Revenues and Pledge Receivables

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The allowance offset against pledges receivable represent management's estimate of expected losses to be realized, and are based on historical experience, current economic conditions, and other relevant factors.

Inventories

Inventories are valued at the lower of cost or market with cost being determined on an average cost method.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for capital improvements. 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.

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 $5,000 and which substantially increase the useful lives of existing facilities. 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:

Description	Range of Useful Lives
Land improvements	2-25 years
Buildings and fixed equipment	5-40 years
Major movable and minor equipment	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.

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 expendable net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors 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.

Grants and Contributions

From time to time, the Hospital receives grants from Fulton County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating 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.

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

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including 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.

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash and cash equivalents include all cash held in checking, savings, and money market accounts with original maturity dates of 90 days or less in current assets, board designated funds and trustee held assets. Additional cash flow information is as follows:

	2008	2007
Supplemental cash flows information		
Cash paid for interest	$ 154,580	$ 118,943
Noncash capital and related financing activities		
Capital leases	$ -0-	$ 308,889
Construction in progress included in accounts payable	$ 512,445	$ -0-

Costs of Borrowing

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

Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs are amortized over the life of the bond utilizing the straight-line method.

Fair Value of Financial Instruments

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

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

Federal or State Income Taxes

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

Accounting for Uncertainty in Income Taxes

The Income Taxes Topic of the FASB Accounting Standards Codification clarifies generally acceptable accounting principles in the United States of America for recognition, measurement, presentation and disclosure relating to uncertain tax positions. This Topic applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by the Topic, the Hospital elected to defer the application of this Topic until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to fiscal year 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in the combined financial statements.

Advertising and Community Relations

The Hospital records advertising and community relations expense in the period incurred. Total expense for advertising and community relations was $277,261 and $218,911 for 2008 and 2007, respectively.

Litigation

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

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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of $750,000 per occurrence ($3,000,000 annual aggregate) for professional liability, $100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate) with the first $250,000 covered by the Hospital's insurance and the remainder by the Fund.

Reclassifications

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

2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2008 and 2007 is as follows:

	2008	2007
Patient accounts receivable		
Receivable from patients and their insurance carriers	$ 7,123,364	$ 5,778,100
Receivable from Medicare	1,273,372	1,650,502
Receivable from Medicaid	786,610	782,750
Total patient accounts receivable	9,183,346	8,211,352
Less allowance for contractual agreements and uncollectible amounts	3,642,276	2,992,082
Patient accounts receivable, net	$ 5,541,070	$ 5,219,270
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	$ 1,450,884	$ 1,170,852
Payable to suppliers	1,917,069	1,230,798
Total accounts payable and accrued expenses	$ 3,367,953	$ 2,401,650

3. PLEDGES RECEIVABLE

Beginning in 2008, the Hospital initiated a capital campaign to directly assist the Hospital in a renovation and expansion project.

The Hospital has pledge commitments outstanding from donors totaling $798,006 as of December 31, 2008. These pledges are due in varying amounts through approximately 2013.

Pledges receivable related to the aforementioned campaign consist of the following at December 31, 2008:

Amounts due in:	
Less than one year	$ 245,673
One to five years	552,333
	798,006
Less unamortized discount	(73,771)
Less allowance for uncollectible pledges	(119,701)
Net pledges receivable	$ 604,534

Pledges receivable due in future years were discounted at 5% at December 31, 2008.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards codification requires certain disclosures regarding the fair value of financial instruments Financial instruments held by the Hospital impacted by this Topic include the Hospital's investments which are measured using quoted prices in active markets and other significant other observable inputs.

The Hospital partially adopted the provisions of the Topic for fiscal year 2008, but as is permitted will delay adoption of non-financial assets and non-financial liabilities covered by the Topic.

This Topic permits entities to partially defer the effective date for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions the Topic to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within the Topic, the Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently.

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

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

	December 31, 2008			
		Measured Using		
	Carrying value on balance sheet	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets whose use is limited				
Certificates of Deposit	$ 2,400,000	$ -0-	$ 2,400,000	$ -0-

5. ASSETS WHOSE USE IS LIMITED

Noncurrent cash and investments internally designated include the following:

<u>Board Designated Funds</u>

Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

<u>Held by Trustee</u>

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.

Donor Restricted

Assets that are restricted by contributors or grantors are included in this category. The investments consist of a deposit at the Northern Indiana Community Foundation, which is restricted for operating purposes of the Hospital, but are not readily available for use. The investments also consist of a cash account for the Woodlawn Development Council, which was set up to deposit contributions of cash which are restricted for the purchase of property and equipment.

6. 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. Investments consist primarily of cash and cash equivalents and certificates of deposit. Market value approximated cost as of December 31, 2008 and 2007.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2008 and 2007, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2008

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	$ 2,795,414	$ 2,795,414	$ -0-	$ -0-	$ -0-
Certificates of deposit	800,000	800,000	-0-	-0-	-0-
	$ 3,595,414	$ 3,595,414	$ -0-	$ -0-	$ -0-

December 31, 2007

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	$ 2,931,528	$ 2,931,528	$ -0-	$ -0-	$ -0-
Certificates of deposit	244,500	244,500	-0-	-0-	-0-
	$ 3,176,028	$ 3,176,028	$ -0-	$ -0-	$ -0-

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

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

Deposits and investments consist of the following as of December 31, 2008 and 2007:

	2008	2007
Carrying amount		
Deposits	$ 1,648,977	$ 749,258
Investments	3,595,414	3,176,028
	$ 5,244,391	$ 3,925,286

	2008	2007
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 1,648,977	$ 749,258
Board designated	2,835,312	2,807,976
Held by trustee	195,188	136,551
Donor restricted	564,914	231,501
	$ 5,244,391	$ 3,925,286

7. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007 is as follows:

	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
Land	$ 345,223	$ -0-	$ -0-	$ -0-	$ 345,223
Land improvements	405,229	-0-	-0-	-0-	405,229
Buildings and fixtures	10,182,474	-0-	(23,372)	-0-	10,159,102
Moveable equipment	9,162,150	247,557	(271,951)	-0-	9,137,756
Construction in progress	45,000	2,491,896	-0-	-0-	2,536,896
Total	20,140,076	2,739,453	(295,323)	-0-	22,584,206
Less accumulated depreciation					
Land improvements	361,072	16,085	-0-	-0-	377,157
Buildings and fixtures	7,304,013	306,069	(23,378)	-0-	7,586,704
Moveable equipment	6,582,412	806,025	(251,602)	-0-	7,136,835
Total accumulated depreciation	14,247,497	1,128,179	(274,980)	-0-	15,100,696
Capital assets, net	$ 5,892,579	$ 1,611,274	$ (20,343)	$ -0-	$ 7,483,510

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
Land	$ 220,127	$ 125,096	$ -0-	$ -0-	$ 345,223
Land improvements	430,296	-0-	(39,399)	14,332	405,229
Buildings and fixtures	10,248,572	28,276	(94,374)	-0-	10,182,474
Moveable equipment	10,803,481	444,026	(2,071,025)	(14,332)	9,162,150
Construction in progress	-0-	45,000	-0-	-0-	45,000
Total	21,702,476	642,398	(2,204,798)	-0-	20,140,076
Less accumulated depreciation					
Land improvements	390,779	9,692	(39,399)	-0-	361,072
Buildings and fixtures	7,069,383	329,004	(94,374)	-0-	7,304,013
Moveable equipment	7,742,544	895,014	(2,055,146)	-0-	6,582,412
Total accumulated depreciation	15,202,706	1,233,710	(2,188,919)	-0-	14,247,497
Capital assets, net	$ 6,499,770	$ 642,398	$ (15,879)	$ -0-	$ 5,892,579

Assets acquired through capital leases still in effect are as follows:

	2008	2007
Equipment	$ 1,832,573	$ 1,832,573
Accumulated depreciation	1,038,463	744,926
	$ 794,110	$ 1,087,647

8. LONG-TERM DEBT

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

- The Hospital's $2,510,000, 2003 First Mortgage Refunding Bonds are due in varying installments of $85,000 to $125,000 through July 2015 at interest rates ranging from 1.10% to 4.2%. Principal and interest is due semi-annually on July 1 and January 1. The bonds are secured by certain Hospital property.

- The Hospital's $2,445,000 Taxable Promissory Note, Series B is due in varying installments of $245,000 to $1,050,000 through October 2008 at interest rates ranging from 3.5% to 4.25%. Principal and interest is due semi-annually on October 1 and April 1. The note is secured by the Hospital's accounts receivable.

- The Hospital has entered into several capital obligations with interest rates of 3.55% to 6.02%, collateralized by the leased equipment. Monthly installments are due in varying amounts from $1,198 to $18,160, including interest. Principal and interest payments are due through May 2010 to April 2012.

- The Hospital's $7,300,000, Series 2007 Promissory Note is due in monthly installments of $41,806 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. As of December 31, 2008, approximately $1,926,000 has been drawn down on the Note.

- The Hospital's $4,700,000, Series 2008 Promissory Note is due in monthly installments of $26,916 for 298 months at a fixed interest rate of 4.76% commencing on January 1, 2009. A final installment of any unpaid principal and interest is due on December 1, 2033. The Promissory Note is secured by certain Hospital property. As of December 31, 2008, approximately $50,000 has been drawn down on the Note.

General obligation bonds of Fulton County were issued October 2, 2003, in the total amount of $2,510,000, to fund the early extinguishment of the FMHA loan debt. The bonds and interest thereon are being paid by Fulton County Hospital Association from semiannual lease rental payments.

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

	Balance December 31, 2007	Additional borrowings	Payments	Balance December 31, 2008	Current portion	Long-term portion
Revenue bonds payable						
Bond Series B	$ 485,000	$ -0-	$ (485,000)	$ -0-	$ -0-	$ -0-
Association Bonds Series 2003	1,760,000	-0-	(190,000)	1,570,000	205,000	1,365,000
Loans payable						
Capital lease obligations	1,094,867	-0-	(364,974)	729,893	380,642	349,251
Promissory Notes						
Series 2007	-0-	1,925,563	-0-	1,925,563	383,395	1,492,173
Series 2008	-0-	49,995	-0-	49,995	49,995	49,995
Unamortized bond discount	(25,588)	-0-	3,411	(22,177)	(3,411)	(18,766)
Total long term debt	$ 3,314,279	$ 1,975,558	$ (1,036,563)	$ 4,253,274	$ 1,015,621	$ 3,237,653

	Balance December 31, 2006	Additional borrowings	Payments	Balance December 31, 2007	Current portion	Long-term portion
Revenue bonds payable						
Bond Series B	$ 950,000	$ -0-	$ (465,000)	$ 485,000	$ 485,000	$ -0-
Association Bonds Series 2003	1,855,000	-0-	(95,000)	1,760,000	190,000	1,570,000
Loans payable						
Capital lease obligations	1,119,331	308,889	(333,353)	1,094,867	364,974	729,893
Unamortized bond discount	(28,999)	-0-	3,411	(25,588)	(3,411)	(22,177)
Total long term debt	$ 3,895,332	$ 308,889	$ (893,353)	$ 3,314,279	$ 1,036,563	$ 2,277,716

Aggregate maturities of long-term debt are as follows:

Year ending December 31,	Principal	Interest	Total
2009	$ 1,015,621	159,951	$ 1,175,572
2010	895,879	125,531	1,021,410
2011	740,385	90,088	830,473
2012	725,936	56,789	782,725
2013	390,619	28,702	419,321
Thereafter	484,834	25,755	510,589
	$ 4,253,274	$ 486,816	$ 4,740,090

9. LINE OF CREDIT

As of December 31, 2008 and 2007, the Hospital had borrowings of $-0- and $525,000 on its $700,000 line of credit. The line of credit is secured by certain assets of the Hospital. It is due August 1, 2009, and bears interest at the base rate charged by the financial institution (3.25% and 7.25% as of December 31, 2008 and 2007).

10. COMPASSIONATE CARE

Charges excluded from patient service revenue under the Hospital's compassionate care policy were $1,314,360 and $479,717 for 2008 and 2007, respectively.

11. NET PATIENT SERVICE REVENUE

Patient service revenue for 2008 and 2007 consists of the following:

	2008	2007
Inpatient services	$ 11,213,511	$ 9,370,895
Outpatient services	44,577,126	35,370,134
Physician services	8,346,191	7,952,926
Gross patient service revenue	64,136,828	52,693,955
Contractual allowances	(25,878,083)	(19,452,791)
Compassionate care	(1,347,763)	(487,616)
Bad debt	(3,435,652)	(3,201,130)
Deductions from revenue	(30,661,498)	(23,141,537)
Net patient service revenue	$ 33,475,330	$ 29,552,418

12. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln National Life and Aetna Life Insurance Company as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute $12,000 of the annual covered salary. The Hospital is required to contribute a matching amount from 10% to 50% of the employees’ contribution based on years of service. Employer contributions to the plan for the calendar year 2008 and 2007 were $202,752 and $167,142, respectively.

13. OPERATING LEASES

The Hospital has leases expiring at various times through 2011. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2008 and 2007 was $422,831 and $405,122, respectively. Minimum future payments on leases for the years following December 31, 2008 are as follows:

Year Ending December 31,	Amount
2009	$ 325,698
2010	325,698
2011	298,556
	$ 949,952

14. CONCENTRATION OF CREDIT RISK

Woodlawn Hospital is located in Rochester, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31, 2008 and 2007 was as follows:

	2008	2007
Medicare	14%	20%
Medicaid	9%	10%
Blue Cross	14%	11%
Other commercial payors	26%	29%
Self-pay	37%	30%
	100%	100%

15. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital also maintains reinsurance including a stop loss for individual employees over $50,000 up to an aggregate amount of $950,000 a year. Substantially all employees are covered for major medical benefits. The total health claims expense was $2,846,505 and $1,812,044 for 2008 and 2007, respectively. Claim expenditures and liabilities of the fund are reported when it is probably 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:

	2008	2007
Unpaid claims, beginning of fiscal year	$ 304,224	$ 309,971
Incurred claims and changes in estimates	2,846,505	1,812,044
Claim payments	(2,748,729)	(1,817,791)
Unpaid claims, end of fiscal year	$ 402,000	$ 304,224

16. DISCONTINUED OPERATIONS

During 2008, the Hospital discontinued service related to Total Equips. Operating results are included as a loss from operations of the discontinued components in the statement of operations of $175,602 in 2008 and a gain from operation of the discontinued components of $31,048 in 2007.

17. COMMITMENTS AND CONTINGENCIES

The Hospital has committed to the construction of a building addition for an estimated amount of approximately $12.5 million. As of December 31, 2008, approximately $2.5 million of the construction has been completed.