



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B38119

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

December 28, 2010

Board of Directors
White County Memorial Hospital
1101 O'Connor Blvd.
Monticello, IN 47960

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the White County Memorial Hospital, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



WHITE COUNTY MEMORIAL HOSPITAL

TABLE OF CONTENTS DECEMBER 31, 2009 AND 2008

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	i
Financial Statements	
Combined Balance Sheets.....	3
Combined Statements of Revenues, Expenses, and Changes in Net Assets.....	5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	8



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
White County Memorial Hospital
Monticello, IN

We have audited the accompanying combined balance sheets of White County Memorial Hospital (the Hospital), a component unit of White County, as of December 31, 2009 and 2008, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above, present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2009 and 2008, 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 2 to the combined financial statements, certain errors resulting in overstatement of previously reported pledges receivable as of December 31, 2008, were discovered by management during 2009. Accordingly, an adjustment has been made to the combined net assets to correct the error.

Board of Trustees
White County Memorial Hospital
Monticello, IN

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

Blue & Co., LLC

June 17, 2010

REQUIRED SUPPLEMENTARY INFORMATION

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

The Management's discussion and analysis of White County Memorial Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2009 and 2008. Please read it in conjunction with the Hospital's audited financial statements. This discussion and analysis includes the combined statements including the Hospital, Twin Lakes Medical Office Building, LLC (Twin Lakes) and the White County Memorial Hospital Foundation (the Foundation), component units of the Hospital.

FINANCIAL HIGHLIGHTS

- Total assets decreased approximately \$5,070,194 compared to 2008.
- Total liabilities decreased approximately \$941,218 compared to 2008.
- Net assets decreased by \$4,128,976 in 2009.
- Operating revenue increased approximately \$1,464,176 or 5.6% over 2008.
- Operating expenses increased approximately \$1,231,321 or 4.7 % over 2008.
- Operating income was \$113,541 in 2009.
- An impairment charge on the former location was taken for \$3,901,122

USING THIS ANNUAL REPORT

The Hospital's combined 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 consolidated financial statements and related notes provide information about the activities and the financial position of the Hospital.

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

All of the current year's revenue earned and expenses incurred are accounted for in the Consolidated Statement of Revenues and Expenses and Changes in Net Assets.

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

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

THE BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES

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

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

Balance Sheet

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets			
Current assets	\$ 9,486,398	\$ 10,326,458	\$ (840,060)
Capital assets, net	36,124,607	40,893,367	(4,768,760)
Other noncurrent assets	3,895,399	3,356,773	538,626
Total assets	<u>\$ 49,506,404</u>	<u>\$ 54,576,598</u>	<u>\$ (5,070,194)</u>
Liabilities			
Current liabilities	\$ 3,461,502	\$ 3,393,943	\$ 67,559
Other liabilities	36,462,840	37,471,617	(1,008,777)
Total liabilities	<u>39,924,342</u>	<u>40,865,560</u>	<u>(941,218)</u>
Net assets			
Unrestricted	3,965,712	3,673,790	291,922
Invested in capital assets, net of related debt	974,852	6,077,851	(5,102,999)
Restricted			
Expendable - Foundation	744,667	1,209,902	(465,235)
Expendable - capital replacement and debt service	3,725,283	2,593,880	1,131,403
Expendable - donor restricted	171,548	155,615	15,933
Total net assets	<u>9,582,062</u>	<u>13,711,038</u>	<u>(4,128,976)</u>
Total liabilities and net assets	<u>\$ 49,506,404</u>	<u>\$ 54,576,598</u>	<u>\$ (5,070,194)</u>

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Significant changes in 2009 were:

- Debt - An additional \$1,000,000 line of credit was established with Lafayette Bank and Trust. A \$955,000 note with Lafayette Bank and Trust was replaced with a \$2,000,000 loan secured by a \$2,000,000 CD.

Statements of Revenues and Expenses and Changes in Net Assets

As specified in the Bylaws, the Board of Trustees is required to approve an annual budget. The budget remains in effect the entire year and variances to budget are presented to the Board via monthly interim financial statements. The 2009 information for the Hospital including Twin Lakes and the Foundation is summarized below:

	2009	2009 Budget	\$ Change
Operating revenues	\$ 27,739,874	\$ 26,275,698	\$ 1,464,176
Operating expenses			
Salaries and benefits	14,456,035	13,888,037	567,998
Professional fees	4,097,242	3,630,304	466,938
Medical supplies and drugs	2,778,247	3,069,211	(290,964)
Repairs and maintenance	401,703	451,774	(50,071)
Depreciation and amortization	2,212,047	1,046,973	1,165,074
Insurance	314,853	233,400	81,453
Other	3,366,206	4,075,313	(709,107)
Total operating expenses	<u>27,626,333</u>	<u>26,395,012</u>	<u>1,231,321</u>
Operating income	113,541	(119,314)	232,855
Nonoperating income (expense)	(403,317)	171,614	(574,931)
Excess (deficiency) of revenues over (under) expenses before capital contributions and special items	(289,776)	52,300	(342,076)
Capital contributions	61,922	-0-	61,922
Special item - impairment charge on building	<u>(3,901,122)</u>	<u>-0-</u>	<u>(3,901,122)</u>
Change in net assets	<u>\$ (4,128,976)</u>	<u>\$ 52,300</u>	<u>(4,181,276)</u>

In comparing actual versus budgeted 2009 results, the following variances occurred:

- Net operating income increased \$232,855 from budgeted figures for 2009.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

- ER volume increased by 8% and patient days increased by 6% resulting in revenue that was 8% above budget.
- The Hospital received a rebate from Consorta, a purchasing group, for \$93,058 and an ASPR grant for \$15,000.
- The Operating expenses were over budget in the following categories:

Salaries and Benefits

A significant factor in the budget variance of \$567,998 in the salaries and benefits was an increase in the health insurance expense over the prior year of \$244,713.

Professional Fees

Professional fees were \$466,938 or 12.9% over budget due to increases in Arnett Coverage for Radiology, and a new contract in the manner Radiology services are provided.

Depreciation and Amortization

The depreciation expense for major movables was \$1,165,074 over budget. This is largely due to moving into a new facility.

Other Expense

The Hospital was under budget for other expense by \$709,107. This is due, in part, to having capital leases rather than the anticipated (budgeted) operating leases.

Special Item – Impairment Charge on Building

Management is in the process of the disposition of the former hospital building, equipment, and land. Therefore, an impairment charge has been recognized in the amount of \$3,901,122 within the 2009 financial statements.

Statements 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?”

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from		
Operating	\$ 1,569,253	\$ 2,576,900
Noncapital financing	528,887	412,647
Capital and related financing	(2,274,434)	(16,921,482)
Investing	(971,991)	2,219,166
	<u>\$ (1,148,285)</u>	<u>\$ (11,712,769)</u>

Total cash and cash equivalents decreased \$1,148,285 mainly through capital, related financing, and investing uses outpacing operating and noncapital sources.

SOURCES OF REVENUE

During 2009, the Hospital derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, commercial insurance carriers, preferred provider organizations, and managed care programs. The table below presents the percentages of gross revenue for patient services, by payer, for the years ended December 31, 2009 and 2008, respectively.

<u>Payor Mix</u>	<u>2009</u>	<u>2008</u>
Medicare	43%	45%
Medicaid	16%	13%
Commercial Insurance	33%	35%
Self-pay / Other	8%	7%
Total	<u>100%</u>	<u>100%</u>

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable cost as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges and the actual or estimated payment.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

The following patient care services statistics help further explain the changes in revenue volume.

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Patient Days	5,586	5,281	5.8%
Med/Surg Days	2,939	2,760	6.5%
SCU Days	199	174	14.4%
Pharmacy Units	346,584	344,519	0.6%
Outpatient Visits	31,439	31,582	-0.5%
ED Visits	13,388	12,369	8.2%
Laboratory Exams	110,034	101,170	8.8%
X-Ray Exams	23,346	20,586	13.4%
Nuclear Medicine Exams	525	376	39.6%
CT Scans	5,569	3,889	43.2%
Ultra Sound Exams	2,875	2,607	10.3%
MRI's	807	758	6.5%
Physical Therapy	11,604	10,844	7.0%
Occupational Therapy	2,257	1,955	15.4%
Operating Procedures	1,070	1,091	-1.9%
Oncology	1,604	1,534	4.6%
Ambulatory Care	5,016	4,351	15.3%
Durable Medical Equipment	3,835	4,158	-7.8%

CAPITAL IMPROVEMENTS

On October 28, 2008, the construction of the new hospital was complete and the Hospital moved to its new location at 720 South Sixth St., Monticello. The new Hospital construction was funded through issuance of revenue bonds. As a result, a large amount of equipment was acquired through purchases and leases in 2008. Highlights of the state of the art equipment acquired included: MRI, CT, ultrasound equipment, fluoroscopy axiom luminos, axiom multix m, bone densometer, surgical sterilizers, two integrated OR surgical machines, surgical lights, an anesthetic machine, integrated cardiac monitoring system throughout patient care departments, a central fetal heart monitoring system for the OB department, kitchen equipment, a walk-in cooler, patient beds and stretchers, and mobile laboratory and pharmacy cabinetry. Many of the capital purchases in 2009 were a result of new facility needs that were determined to be necessary once the building was occupied.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

COMMUNITY BENEFIT

The Hospital is a Governmental Not-For-Profit County Hospital located in Monticello, Indiana. As a county Hospital, the governing board of trustees and the administrative team believe there is a corporate responsibility to the community members that we serve, to provide special programs, education and charitable care without the concern for reimbursement. It is important to discuss the Hospital's financial partnership with the community we serve. The community benefit was \$14,078,796 in 2009 and is broken into the following five sub categories.

Medicare Shortfall: The Medicare shortfall is the difference between the Hospital's gross charges for a service or procedure and the amount of cash received from the Center for Medicare and Medicaid Services. In 2009, the Medicare shortfall for White County Memorial Hospital was \$7,407,624.

Medicaid Shortfall: The Medicaid shortfall is the difference between the Hospital's gross charges for a service or procedure and the amount of cash received from Medicaid. In 2009, the Medicaid shortfall for White County Memorial Hospital was \$5,606,972.

Charity: Excluded from net patient service revenue are charges for patient services waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Management's commitment to provide emergency care for all patients without regard to their ability to pay contributed to this component of the community's benefit. In 2009, White County Memorial Hospital provided \$786,598 in charity care. This is a \$210,511 or a 37% increase from 2008.

Education: In 2009, White County Memorial Hospital spent \$102,246 on educational programs for the residents of White County and the Hospital staff. This does not include conferences and seminars. These education programs included: \$19,750 in grants to residents of White County enrolled in secondary health careers educational programs, Advanced Cardiac Life Support, Car Seat Education/Permanent Fitting Station, CPR/1st Aid community and staff, Dietitian O/P education, Emergency Nurse Pediatric Course, Neonatal Resuscitation course, organ tissue eye donation education, poison control/prevention, prenatal classes, safe sitter course, Shaken Infant Syndrome education for all county schools, smoking cessation, STD education TLHS & NWHS, and \$ 36,701 for employee tuition assistance.

Special Programs: In 2009, White County Memorial Hospital spent \$175,356 on special programs for the residents of White County. These special programs include but are not limited to Monticello Ivy Tech support, cholesterol screening, domestic violence task force, prescription assistance, health fairs, Relay for Life, etc.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2009 AND 2008

ECONOMIC OUTLOOK

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

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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 any questions about this report or need additional financial information, contact the Hospital's Chief Executive Officer at 720 South Sixth St., Monticello, IN 47960.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

	2009	Restated 2008
Current assets		
Cash and cash equivalents	\$ 2,399,783	\$ 3,650,404
Short-term investments	187,026	212,844
Current portion of assets limited as to use	1,151,287	1,076,819
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$2,601,542 and \$2,466,946 in 2009 and 2008, respectively	3,916,824	4,192,362
Supplies and other current assets	979,059	1,127,026
Current portion of pledges receivable	592,004	67,003
Estimated third-party settlements	260,415	-0-
Total current assets	9,486,398	10,326,458
Assets limited as to use		
Funds held for capital replacement and debt service	3,725,283	2,593,880
Donor restricted funds	171,548	155,615
	3,896,831	2,749,495
Less amount for current obligations	1,151,287	1,076,819
Noncurrent assets limited as to use	2,745,544	1,672,676
Capital assets, net	36,124,607	40,893,367
Investments	874,976	809,543
Other assets		
Pledges receivable	14,097	598,714
Other	260,782	275,840
Total assets	<u>\$ 49,506,404</u>	<u>\$ 54,576,598</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	2009	Restated 2008
Current liabilities		
Current portion of long term debt	\$ 1,151,287	\$ 1,076,819
Line of credit	1,000,000	-0-
Accounts payable and accrued expenses	511,130	707,369
Accrued salaries and benefits	799,085	1,322,749
Estimated third-party settlements	-0-	287,006
Total current liabilities	<u>3,461,502</u>	<u>3,393,943</u>
Long term debt, net of current portion	33,998,468	33,738,697
Other liabilities	<u>2,464,372</u>	<u>3,732,920</u>
Total liabilities	39,924,342	40,865,560
Net assets		
Unrestricted	3,965,712	3,673,790
Invested in capital assets, net of related debt	974,852	6,077,851
Restricted		
Expendable - Foundation	744,667	1,209,902
Expendable - capital replacement and debt service	3,725,283	2,593,880
Expendable - donor restricted	171,548	155,615
Total net assets	<u>9,582,062</u>	<u>13,711,038</u>
Total liabilities and net assets	<u>\$ 49,506,404</u>	<u>\$ 54,576,598</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	Restated 2008
Operating revenues		
Net patient service revenue	\$ 27,163,114	\$ 24,866,299
Other	576,760	682,924
Total operating revenues	27,739,874	25,549,223
Operating expenses		
Salaries and benefits	14,456,035	13,964,362
Professional fees	4,097,242	3,853,847
Medical supplies and drugs	2,778,247	2,914,430
Repairs and maintenance	401,703	566,595
Depreciation and amortization	2,212,047	937,080
Insurance	314,853	269,712
Other	3,366,206	2,769,248
Total operating expenses	27,626,333	25,275,274
Operating income	113,541	273,949
Nonoperating income (expense)		
Investment income	112,588	119,412
Interest expense	(2,313,343)	(450,995)
Unrealized gain (loss) on interest rate swap	1,268,548	(2,156,619)
Other nonoperating income (expense)	528,890	412,647
Total nonoperating income (expense)	(403,317)	(2,075,555)
Excess (deficiency) of revenues over (under) expenses before capital contributions and special items	(289,776)	(1,801,606)
Capital contributions	61,922	401,180
Special item - impairment charge on building	(3,901,122)	-0-
Change in net assets	(4,128,976)	(1,400,426)
Net assets		
Beginning of year	13,711,038	15,111,464
End of year	\$ 9,582,062	\$ 13,711,038

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

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

	2009	Restated 2008
Operating activities		
Cash received from patients and third party payors	\$ 26,891,231	\$ 25,766,945
Cash paid to employees for salaries and benefits	(14,979,699)	(13,999,892)
Cash paid to vendors for goods and services	(10,991,465)	(9,977,660)
Other operating receipts, net	649,186	787,507
Net cash flows from operating activities	<u>1,569,253</u>	<u>2,576,900</u>
Noncapital financing activities		
Other nonoperating income	528,887	412,647
Capital and related financing activities		
Capital contributions	61,922	401,180
Proceeds from debt instruments	1,405,000	-0-
Acquisition and construction of capital assets	(1,357,216)	(14,923,654)
Interest expense on long-term debt	(2,313,343)	(450,995)
Borrowings on the line of credit, net	1,000,000	-0-
Principal payments on long-term debt	(1,070,797)	(1,948,013)
Net cash flows from capital and related financing activities	<u>(2,274,434)</u>	<u>(16,921,482)</u>
Investing activities		
Investment income	112,588	119,412
Change in assets whose use is limited, net	(1,045,000)	2,125,000
Change in investments, net	(39,579)	(25,246)
Net cash flows from investing activities	<u>(971,991)</u>	<u>2,219,166</u>
Net change in cash and cash equivalents	(1,148,285)	(11,712,769)
Cash and cash equivalents		
Beginning of year	5,444,899	17,157,668
End of year	<u>\$ 4,296,614</u>	<u>\$ 5,444,899</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

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

	2009	Restated 2008
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 113,541	\$ 273,949
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,212,047	937,080
Provision for bad debt	3,835,334	3,386,552
Loss on disposal of property and equipment	21,666	73,231
Changes in assets and liabilities		
Patient accounts receivable	(3,559,796)	(3,871,259)
Estimated third-party settlements	(547,421)	1,385,353
Supplies and other current assets	147,967	(205,998)
Pledges receivable, net	59,616	31,352
Other assets	6,202	117,053
Accounts payable and accrued expenses	(196,239)	485,117
Accrued salaries and benefits	(523,664)	(35,530)
Net cash flows from operating activities	\$ 1,569,253	\$ 2,576,900
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 2,399,783	\$ 3,650,404
In assets limited as to use	1,896,831	1,794,495
Total cash and cash equivalents	\$ 4,296,614	\$ 5,444,899
Supplemental cash flows information		
Cash paid for interest net of amounts capitalized of \$-0- in 2009 and \$580,144 in 2008	\$ -0-	\$ 435,000
Property acquired through capital lease obligations	\$ -0-	\$ 2,308,529
Non cash investing, capital and related financing activities		
Unrealized gain (loss) on interest rate swap	\$ 1,268,548	\$ (2,156,619)
Impairment charge on building	\$ (3,901,122)	\$ -0-

See accompanying notes to combined financial statements

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

White County Memorial 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 White County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of White County.

On January 18, 1983, the Board of County Commissioners of White County, upon written request of the Hospital Board of Trustees created the White County Memorial 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 for the Hospital.

Blended Component Units

The White County Memorial Hospital Foundation, Inc. (Foundation) is a blended component unit of the Hospital. A financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital. The Foundation is a 501(c)(3) not-for-profit organization.

The Foundation's total assets and net assets as of December 31, 2009 and 2008 were \$751,251 and \$1,255,931, respectively. The Foundation's change in net assets for 2009 and 2008 was (\$504,680) and \$329,130 respectively.

Twin Lakes Medical Office Building, LLC (MOB) is a blended component unit of the Hospital. The Hospital owns 100% of the MOB. Although it is legally separate from the Hospital, the MOB is reported as if it were a part of the Hospital because the two Governing Boards are the same.

The MOB's total assets as of December 31, 2009 and 2008 were \$8,462,660 and \$8,581,182, respectively. The MOB's net assets as of December 31, 2009 and 2008 were (\$1,053,702) and (\$318,672), respectively. The MOB's change in net assets for 2009 and 2008 was (\$735,030) and (\$346,383) respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Use of Estimates

The preparation of financial statements in conformity with the 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 disclosures of contingent assets and liabilities at the date of the 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 in accordance with accounting principles generally accepted in the United States of America and makes such accruals and disclosures as might be required there under. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less, excluding those amounts included in assets whose use is limited.

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of cash and cash equivalents that are readily available for use in operations.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

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. Certain allowances 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. Amortization of the discount is included in contribution revenue.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets Limited as To Use

Funds Held for Capital Replacement and Debt Service

Funds held for capital replacement and debt service represent amounts deposited with a trustee in accordance with the requirements of debt agreements and amounts set aside by the Hospital Board of Trustees for funding depreciation expense and other operating designations.

Donor Restricted Funds

Donor restricted funds represent amounts restricted for purposes as are specified by the donor.

Assets limited as to use intended for the current portion of long-term debt are reported in current assets. Interest and dividends on assets whose use is limited is included in investment income when earned.

Capital Assets

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 meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.

All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and fixed equipment	4 - 50 years
Major movable and minor equipment	3 - 15 years

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. Interest cost capitalized in 2009 and 2008 was \$-0- and \$580,144, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were approximately \$256,482 and \$266,000, respectively. Issue costs are amortized utilizing the straight-line method.

Grants and Contributions

From time to time, the Hospital receives grants 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.

Transfers from White County

The Hospital receives transfers from White County. The transfers from White County were for assistance with capital assets and the related debt.

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 noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, board members, or contributors. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Allowance for Patient Accounts Receivable

Management estimates an allowance for accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital patient mix. The resulting provisions from the application of the allowance are accumulated as a component of net patient service revenue.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Compensated Absences

The Hospital's policy on paid time off (PTO), which includes vacation, sick leave, and holidays, allows full-time employees and regular part-time employees to earn paid time off based on job classification and number of years of service. Employees who qualify may carry over a maximum of seventy-five hours of PTO. Accrued PTO can be paid to eligible employees. Paid days off are accrued when incurred and reported as a liability.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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; medical malpractice; 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.

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2009 and 2008 were \$132,161 and \$155,378, respectively.

Reclassifications

Certain amounts from 2008 have been reclassified to conform to the 2009 presentation.

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 the date the financial statements are issued which is June 17, 2010.

2. PRIOR PERIOD ADJUSTMENT

Certain errors resulting in overstatement of previously reported pledges receivable as of December 31, 2008, were discovered by management during 2009. Accordingly, an adjustment has been made to the combined net assets to correct the error. The Hospital restated its 2008 combined financial statements as follows:

	December 31, 2008		
	Originally Reported	Adjustment	Restated
Current portion of pledges receivable	\$ 146,688	\$ (79,685)	\$ 67,003
Pledges receivable	\$ 880,136	\$ (281,422)	\$ 598,714
Other assets	\$ 270,840	\$ 5,000	\$ 275,840
Net assets - Expendable Foundation	\$ 1,566,009	\$ (356,107)	\$ 1,209,902

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

3. IMPAIRMENT CHARGE ON BUILDING

Management is in the process of the disposition of the former hospital building, equipment, and land. Therefore, an impairment charge has been recognized in the amount of \$3,901,122 within the 2009 financial statements.

4. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors 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 2007. Management believes adequate provision has been made in the financial statements for any adjustments.

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

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 participates in the Indiana Medicaid Disproportionate Share Hospital and Upper Payment Limit programs. Subject to certain qualification criteria, the Hospital is entitled to participate in the program annually. The Hospital recognized reimbursement from the program within net patient revenue of approximately \$876,993 and \$1,824,524 during the years ended December 31, 2009 and 2008, respectively.

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Patient service revenue for 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Inpatient services	\$ 9,511,678	\$ 8,789,469
Outpatient services	39,063,037	32,178,657
Gross patient service revenue	<u>48,574,715</u>	<u>40,968,126</u>
Contractual allowances	16,789,669	12,139,188
Provision for bad debt	3,835,334	3,386,552
Charity care	786,598	576,087
Deductions from revenue	<u>21,411,601</u>	<u>16,101,827</u>
Net patient service revenue	<u>\$ 27,163,114</u>	<u>\$ 24,866,299</u>

5. CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were \$786,598 and \$576,087 for 2009 and 2008, respectively.

6. ASSETS LIMITED AS TO USE

A summary of assets limited as to use at December 31 is as follows:

	<u>2009</u>	<u>2008</u>
Funds held for capital replacement and debt service		
Cash and cash equivalents	\$ 1,725,283	\$ 1,638,880
Certificates of deposit	2,000,000	955,000
Donor restricted funds		
Cash and cash equivalents	49,129	58,029
Funds held by others - cash and cash equivalents	122,419	97,586
Total assets limited as to use	<u>\$ 3,896,831</u>	<u>\$ 2,749,495</u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

7. DEPOSITS AND INVESTMENTS

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

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2009					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 54,014	\$ 54,014	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	138,643	55,931	1,200	-0-	81,512
Certificates of Deposit	2,869,345	77,081	2,718,196	26,068	48,000
	\$ 3,062,002	\$ 187,026	\$ 2,719,396	\$ 26,068	\$ 129,512

December 31, 2008					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 63,372	\$ 63,372	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	136,427	50,306	-0-	1,000	85,121
Certificates of Deposit	1,777,588	99,167	1,473,712	204,709	-0-
	\$ 1,977,387	\$ 212,845	\$ 1,473,712	\$ 205,709	\$ 85,121

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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.

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 4,296,614	\$ 5,444,899
Investments	3,062,002	1,977,387
	<u>\$ 7,358,616</u>	<u>\$ 7,422,286</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 2,399,783	\$ 3,650,404
Short-term investments	187,026	212,844
Current portion of assets limited as to use	1,151,287	1,076,819
Noncurrent assets limited as to use	2,745,544	1,672,676
Investments	874,976	809,543
	<u>\$ 7,358,616</u>	<u>\$ 7,422,286</u>

8. FAIR VALUE MEASUREMENTS

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 December 31, 2009 and 2008 are as follows:

December 31, 2009				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
U.S. Government Securities	\$ 138,643	\$ -0-	\$ 138,643	\$ -0-
	138,643	-0-	138,643	-0-
Certificates of deposit and				
Cash and cash equivalents *	2,923,359			
	\$ 3,062,002			

Liabilities				
Interest Rate Swap	\$ 2,464,372	\$ -0-	\$ 2,464,372	\$ -0-

*Certificates of deposit are reported at contract value

December 31, 2008				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
U.S. Government Securities	\$ 136,427	\$ -0-	\$ 136,427	\$ -0-
	136,427	-0-	136,427	-0-
Certificates of deposit and				
Cash and cash equivalents *	1,840,960			
	\$ 1,977,387			

Liabilities				
Interest Rate Swap	\$ 3,732,920	\$ -0-	\$ 3,732,920	\$ -0-

*Certificates of deposit are reported at contract value

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the combined balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value.

Long-term debt: Fair value of the Hospital's variable rate revenue bonds is based on current traded value. The carrying value of capital lease obligations and other debt approximate fair value.

9. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year-end consisted of these amounts.

	<u>2009</u>	<u>2008</u>
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 6,296,049	\$ 6,220,380
Receivable from Medicare	1,333,784	1,283,778
Receivable from Medicaid	368,913	972,106
Total patient accounts receivable	<u>7,998,746</u>	<u>8,476,264</u>
Less allowance for contractual agreements and uncollectible amounts	<u>4,081,922</u>	<u>4,283,902</u>
Patient accounts receivable, net	<u>\$ 3,916,824</u>	<u>\$ 4,192,362</u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers and other	\$ 511,130	\$ 707,369
Payable to employees (including payroll taxes and benefits)	799,085	1,322,749
Total accounts payable and accrued expenses	<u>\$ 1,310,215</u>	<u>\$ 2,030,118</u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

10. CAPITAL ASSETS

A summary of capital assets at December 31 is as follows:

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 982,570	\$ -0-	\$ (28,000)	\$ -0-	\$ 954,570
Land improvements	1,826,579	282,202	(278,430)	15,341	1,845,692
Buildings	39,716,616	332,726	(8,931,972)	688,986	31,806,356
Equipment	8,885,108	78,010	(1,400,907)	87,570	7,649,781
Construction in progress	352,768	664,278	-0-	(791,897)	225,149
Total	51,763,641	1,357,216	(10,639,309)	-0-	42,481,548
Accumulated depreciation	10,870,274	2,205,689	(6,719,022)	-0-	6,356,941
Net capital assets	\$ 40,893,367	\$ (848,473)	\$ (3,920,287)	\$ -0-	\$ 36,124,607

	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
Land	\$ 982,570	\$ -0-	\$ -0-	\$ -0-	\$ 982,570
Land improvements	644,172	-0-	(1,559)	1,183,966	1,826,579
Buildings	13,714,729	35,954	(691,326)	26,657,259	39,716,616
Equipment	6,244,943	1,003,602	(695,799)	2,332,362	8,885,108
Construction in progress	14,333,728	16,192,627	-0-	(30,173,587)	352,768
Total	35,920,142	17,232,183	(1,388,684)	-0-	51,763,641
Accumulated depreciation	11,255,005	930,722	(1,315,453)	-0-	10,870,274
Net capital assets	\$ 24,665,137	\$ 16,301,461	\$ (73,231)	\$ -0-	\$ 40,893,367

11. LINE OF CREDIT AND LONG TERM DEBT

The Hospital participated in a Series 2006 adjustable rate demand lease rental revenue bond issue for \$25,500,000 to help finance the construction of the new Hospital. Bond payments are due in annual installments ranging from \$400,000 to \$1,500,000 through October 2038.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Series 2006 revenue bonds. The letter of credit for the Series 2006 revenue bond issue is maintained at an amount sufficient to cover the outstanding obligation. The letter is due on October 15, 2011, but a provision is maintained stating that the letter may be extended by the Bank for one to five additional years. Interest is payable monthly at the bank's prime rate, not to exceed 10%. There are no outstanding borrowings on the letter of credit as of December 31, 2009. Reimbursements under the letter of credit for principal of the bonds due to maturity, redemption, acceleration or to pay interest are due immediately. Reimbursements related to a drawing under the letter of credit to pay the purchase price of tendered bonds are due within 367 days with an interest rate based upon the base rate plus 2%.

Certain financial covenants include a debt service coverage ratio, days cash on hand, and a maximum debt to capitalization.

During 2005, the Hospital acquired a \$955,000 loan for the purchase of land. During 2008, the Hospital refinanced the loan to be due in 2009 with a fixed interest rate of 7.15%, secured by a certificate of deposit. As of February 27, 2009, the Hospital refinanced the loan into a \$2,000,000 note payable to bank due February 27, 2010 secured by a certificate of deposit, with an interest rate of approximately 3.5%.

During 2009, the Hospital borrowed on a line of credit for \$1,000,000, secured by certain accounts receivable, due February 27, 2010, with a variable interest rate at not to exceed 21% or less than 4.25%. The rate at December 31, 2009 was 4.25%. Subsequent to December 31, 2009, the Hospital obtained replacement financing for the line of credit with a principal amount of \$1,900,000, secured by certain specified property and assets, due February 12, 2011.

The Hospital acquired a loan of \$8,000,000 in 2007 to finance the construction of the Twin Lakes Medical Building. Monthly payments of \$69,662 are due plus interest of 6.4% through December 27, 2022. Interest rates are adjusted to 1.6% above the current 5-year treasury rate on December 27, 2011 and on December 27, 2016.

The Hospital acquired approximately \$2,300,000 in capital leases during 2008 to finance equipment with monthly payments ranging from \$5,670 to \$19,400, expiring through 2015. Interest rates on these capital leases range from 5% to 10%.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

	Balance December 31, 2008	Additional borrowings	Payments	Balance December 31, 2009	Current portion
2006 Bonds	\$ 24,000,000	\$ -0-	\$ (400,000)	\$ 23,600,000	\$ 415,000
Twin Lakes MOB loan	7,675,014	-0-	(348,304)	7,326,710	371,151
Note Payable - Land	955,000	1,045,000	-0-	2,000,000	-0-
LBT Loan	-0-	360,000	(1,287)	358,713	18,392
Capital leases	2,185,538	-0-	(321,206)	1,864,332	346,744
Total	\$ 34,815,552	\$ 1,405,000	\$ (1,070,797)	\$ 35,149,755	\$ 1,151,287

	Balance December 31, 2007	Additional borrowings	Payments	Balance December 31, 2008	Current portion
2006 Bonds	\$ 25,500,000	\$ -0-	\$ (1,500,000)	\$ 24,000,000	\$ 400,000
Twin Lakes MOB loan	8,000,000	-0-	(324,986)	7,675,014	355,613
Note Payable - Land	955,000	-0-	-0-	955,000	-0-
Capital leases	-0-	2,308,529	(122,991)	2,185,538	321,206
Total	\$ 34,455,000	\$ 2,308,529	\$ (1,947,977)	\$ 34,815,552	\$ 1,076,819

Scheduled principal repayments and interest on long-term debt for the next five years and thereafter are as follows:

Years Ending December 31,	Principal	Interest	Total
2010	\$ 1,151,287	\$ 1,628,609	\$ 2,779,896
2011	3,232,957	1,538,496	4,771,453
2012	1,302,561	1,462,149	2,764,710
2013	1,628,067	1,381,430	3,009,497
2014	1,072,540	862,645	1,935,185
2015-2019	5,956,540	5,557,190	11,513,730
2020-2024	5,810,803	3,858,610	9,669,413
2025-2029	4,345,000	2,826,384	7,171,384
2030-2038	10,650,000	2,388,180	13,038,180
	\$ 35,149,755	\$ 21,503,693	\$ 56,653,448

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. DEFERRED COMPENSATION AGREEMENT

A deferred compensation agreement (the plan) was established for the Hospital's Chief Executive Officer (CEO). The plan is funded at 50 percent of the CEO's base salary. The Hospital acts as the trustee of the investment account. The CEO is 100% vested in the contributions when made, as well as any investment earnings. Subsequent to December 31, 2009, the CEO retired and there was no additional financial statement impact.

13. INTEREST RATE SWAP

Objectives and Strategies for Using Derivatives

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowing and to lower its overall borrowing costs.

The Hospital has interest rate swap agreements with a financial institution for a total principal amount of \$24,000,000. The agreement effectively changes the Hospital's interest rate exposure on its 2006 revenue bonds to a fixed 4.24% while the financial institution pays a variable rate of approximately 1.0% and 2.7% at December 31, 2009 and 2008. The agreement expires October 1, 2021. The Hospital is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Hospital does not anticipate nonperformance by the counterparties.

The derivatives are not designated as hedging instruments, and are marked-to-market on the combined balance sheets at fair value. The total derivative liability for the Hospital is \$2,464,372 and \$3,732,920 as of December 31, 2009 and 2008, respectively. The related gain (loss) in the combined statements of revenues, expenses and changes in net assets is included as a component of other non-operating expenses for the reporting period. The gain on derivatives amounted to \$1,268,548 for 2009 with a loss for 2008 of \$2,156,619.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

14. EMPLOYEE HEALTH BENEFIT PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical and dental benefits. The plan has annual reinsurance coverage for individual claims and aggregate claims in excess of a stipulated amount per year. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$1,725,339 and \$1,480,626 for the years ended December 31, 2009 and 2008, respectively.

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 maintains reinsurance including a stop loss for specific incident claims and an employee lifetime maximum. Substantially all employees are covered for major medical benefits.

15. PENSION PLAN

The Hospital has a defined contribution pension plan administered by Lincoln National Life Insurance Company, Fort Wayne, Indiana as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing Lincoln Financial Group, 1500 Market St. 3900, Philadelphia, PA 19102.

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital contributes 8.5% of gross wages for covered employees in the Plan. Employer contributions to the plan for the years ended December 31, 2009 and 2008 were \$689,928 and \$738,260, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

16. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors at December 31 is as follows:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Medicare	17%	16%	43%	45%
Medicaid	5%	12%	16%	13%
Blue Cross	8%	7%	15%	15%
Other Third-Party Payors	11%	16%	18%	20%
Self Pay/Other	<u>59%</u>	<u>49%</u>	<u>8%</u>	<u>7%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

17. MALPRACTICE INSURANCE

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance for amounts below the thresholds of the Act.

18. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through April 2013. Total rental expense in 2009 and 2008 was \$1,622,255 and \$1,084,792, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 1,068,355
2011	950,347
2012	939,619
2013	778,524
	<u>\$ 3,736,845</u>

Operating Lease Commitments

The Hospital leases office space to tenants under operating leases with terms of one to ten years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2009:

<u>Years Ending December 31,</u>	<u>Amount</u>
2010	\$ 291,336
2011	291,336
2012	291,336
2013	291,336
2014	291,336
Thereafter	638,948
	<u>\$ 2,095,628</u>

Service Agreements

The Hospital is involved in a service agreement for 2009 and 2008 for emergency services that requires an annual payment of \$300,000 and a \$100,000 line of credit for use by the service provider. There are no amounts outstanding on the line of credit at December 31, 2009 and 2008.

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the 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.