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

March 25, 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, 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 the White County Memorial 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

TAA:dsk

# WHITE COUNTY MEMORIAL HOSPITAL

BOARD OF TRUSTEES MEETING

*CPAs / ADVISORS*



# **WHITE COUNTY MEMORIAL HOSPITAL**

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# **WHITE COUNTY MEMORIAL HOSPITAL**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2008 AND 2007**

# WHITE COUNTY MEMORIAL HOSPITAL

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

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
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, 2008 and 2007, and the related combined statements of operations, 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, 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.

Management's discussion and analysis on pages i through vii is not a required part of the basic 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*

October 1, 2009

**REQUIRED SUPPLEMENTARY INFORMATION**

# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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The Management's discussion and analysis of White County Memorial Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2008 and 2007. 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 and the White County Memorial Hospital Foundation, component units of the Hospital.

### FINANCIAL HIGHLIGHTS

There was an operating income of \$273,949 in 2008. The combined statements net assets decreased by \$1,400,426.

### CAPITAL IMPROVEMENTS

The Governing Board of Trustees for White County Memorial Hospital began actual construction of a replacement Hospital in the fall of 2006, due to being land locked in a non-visible location, with no room for expansion of facilities and/or services. 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.

It has been the philosophy of the Governing Board and Administration to set aside \$75,000 per month to assist with the 1<sup>st</sup> payment of the Bond for the new construction. The first payment was made in October 2008. In addition, it has also been the philosophy to finance the capital budget through the proceeds of the operating budget and the use of capital and/or operating leases. It is important to note for 2008, the move to the new hospital required the need for a significant amount of capital acquisitions.

The Hospital made the significant capital acquisitions and improvements in 2008. The following are some of the highlights:

#### Patient Care Equipment/Information Systems

PACS CPSI Interface and Install	\$	43,910
Microsale Software and Dietary		13,800
Room Service Software		38,621
Additional Point of Care Licenses		22,200
Lead Lined Cabinets for Nuclear Medicine		22,682
Wireless Network Equipment		38,036
OB Perinatal System Labor/Install		29,937
Morgue Refrigerator		13,259
IHERN Tower		15,559
		<u>\$ 238,004</u>

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# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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### Additional Notes to Capital

It has been the philosophy of the Governing Board and Administration over the past several years to only purchase equipment and other enhancements if it could be relocated to the new hospital. The goal was to purchase equipment for the new hospital and have the new building as turnkey as possible. 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 through operating leases with Relational, Inc. included: a 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, and a central fetal heart monitoring system for the OB department. The total operating lease amount with Relational Technology Solutions is \$3,892,851.

Equipment purchases through capital leases with Relational Technology Solutions included kitchen equipment, a walk-in cooler, patient beds and stretchers, and mobile laboratory and pharmacy cabinetry. The total Relational Technology Solutions capital lease amount is \$890,603.

### **ACTUAL TO BUDGETED PERFORMANCE**

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 2008 information for the Hospital including Twin Lakes Medical Office Building, LLC and the Foundation is summarized below:

	2008	2008 Budget	\$ Change	% Change
<b>Operating revenues</b>	\$ 25,549,223	\$ 22,999,560	\$ 2,549,663	11.1%
<b>Operating expenses</b>				
Salaries and benefits	13,964,362	13,242,173	722,189	5.5%
Professional fees	3,853,847	3,077,839	776,008	25.2%
Medical supplies and drugs	2,914,430	3,299,715	(385,285)	-11.7%
Repairs and maintenance	566,595	636,347	(69,752)	-11.0%
Depreciation and amortization	937,080	549,475	387,605	70.5%
Insurance	269,712	309,000	(39,288)	-12.7%
Other	2,769,248	2,293,933	475,315	20.7%
Total operating expenses	<u>25,275,274</u>	<u>23,408,482</u>	<u>1,866,792</u>	<u>8.0%</u>
Operating income	273,949	(408,922)	682,871	-167.0%
<b>Nonoperating income and capital contributions</b>	<u>(1,674,375)</u>	<u>417,661</u>	<u>(2,092,036)</u>	<u>-500.9%</u>
Change in net assets	<u>\$ (1,400,426)</u>	<u>\$ 8,739</u>	<u>\$ (1,409,165)</u>	<u>-16125.0%</u>

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# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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In comparing actual versus budgeted 2008 results, the following variances occurred:

- Net operating income increased \$682,871 from budgeted figures for 2008.
- ER volume increased by 6%, resulting in revenue that was 18% above budget.
- Total Outpatient volumes increased by 5% from 2007 to 2008.
- WCMH received an ASPAR grant for \$26,000 and a rebate from Consorta, our purchasing group, for \$53,787.

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

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Patient Days	5,281	5,403	-2.3%
Med/Surg Days	2,760	2,818	-2.1%
SCU Days	174	163	6.7%
Pharmacy Units	344,519	427,638	-19.4%
Outpatient Visits	31,582	30,228	4.5%
ED Visits	12,369	11,678	5.9%
Laboratory Exams	101,170	96,694	4.6%
X-Ray Exams	20,586	18,847	9.2%
Nuclear Medicine Exams	376	364	3.3%
CT Scans	3,889	3,221	20.7%
Ultra Sound Exams	2,607	2,180	19.6%
MRI's	758	771	-1.7%
Physical Therapy	10,844	11,274	-3.8%
Occupational Therapy	1,955	1,963	-0.4%
Operating Procedures	1,091	1,239	-11.9%
Oncology	1,534	1,723	-11.0%
Ambulatory Care	4,351	4,122	5.6%
Durable Medical Equipment	4,158	4,482	-7.2%

- The Operating expenses were over budget in the following categories:

### Salaries, Wages and Benefits

Salaries, Wages and Benefits costs were \$722,189 over budget due to an increase in paid FTE's from 219 in 2007 to 226 in 2008. This increase in Salaries and Wages creates an increase in other salary benefits such as FICA and pension. The health insurance was over budget by approximately \$276,951.

# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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### Professional Fees

Professional fees were \$776,008 or 25.2% over budget due to increases in physician on-call for anesthesia and OR, as well as the additional cost for services provided by Arnett Clinic in Radiology.

### Depreciation and Amortization

The depreciation expense for major movables was \$387,605 over budget. This is largely due to vacating the old hospital, and will continue to be a substantial expense.

### Repairs and Maintenance

Repairs and maintenance were over budget by \$69,752 due to maintaining both the old hospital and the new hospital for the last quarter of the year.

### Other Expense

The Hospital was over budget for other expense by \$475,315. This is due to an increase in employee and physician recruitment, scholarships, special events, additional leases for equipment and low voltage systems at the new hospital, and a new program provided through WIC.

## REVENUE AND CASH ANALYSIS

### Sources of Revenue

During 2008, 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, 2008 and 2007, respectively.

<u>Payor Mix</u>	<u>2008</u>	<u>2007</u>
Medicare	45%	47%
Medicaid	13%	12%
Commercial Insurance	35%	35%
Self-pay / Other	7%	6%
Total	<u>100%</u>	<u>100%</u>

# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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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.

### Sources of Cash

Cash from operating activities was \$2,545,548 cash from by noncapital financing activities was \$412,647, cash used in capital and related financing activities was \$16,921,482, and cash from investing activities was \$2,250,518. This resulted in a net decrease in cash and cash equivalents of \$11,712,769, compared to a net increase of \$4,233,868 in 2007. The changes in cash are mainly due to the acquisition of new financing and construction related to the new hospital, as well as the actual move from 1101 O'Connor Boulevard to 720 South Sixth Street.

### BALANCE SHEET ANALYSIS

	2008	2007	Change
<b>Assets</b>			
Current assets	\$ 11,361,143	\$ 14,132,559	\$ (2,771,416)
Capital assets, net	40,893,367	24,665,137	16,228,230
Other noncurrent assets	2,678,195	14,281,707	(11,603,512)
Total assets	<u>\$ 54,932,705</u>	<u>\$ 53,079,403</u>	<u>\$ 1,853,302</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,393,943	\$ 4,369,155	\$ (975,212)
Other liabilities	37,471,617	33,242,677	4,228,940
Total liabilities	<u>40,865,560</u>	<u>37,611,832</u>	<u>3,253,728</u>
<b>Net assets</b>			
Unrestricted	4,628,790	8,797,239	(4,168,449)
Unrestricted - funded depreciation	375,000	1,991,655	(1,616,655)
Invested in capital assets, net of related debt	5,704,765	936,731	4,768,034
Restricted			
Expendable - Foundation	1,566,009	1,144,817	421,192
Expendable - debt service and capital expenditure	1,636,966	2,228,188	(591,222)
Expendable - donor restricted	155,615	368,941	(213,326)
Total net assets	<u>14,067,145</u>	<u>15,467,571</u>	<u>(1,400,426)</u>
Total liabilities and net assets	<u>\$ 54,932,705</u>	<u>\$ 53,079,403</u>	<u>\$ 1,853,302</u>

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# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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### Debt

As disclosed in the notes to the financial statements, Note 8, the Hospital has obtained additional financing in 2008 for capital leases related to equipment within the new hospital and medical office building.

### Liabilities and Net Assets

The changes in the Balance Sheet are due to changes in the Construction in Progress account in the fixed asset area.

## **COMMUNITY BENEFIT**

White County Memorial Hospital is a Governmental Not-For-Profit County Hospital located in Monticello, Indiana. As a county Hospital, the governing board of directors 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 \$9,406,718 in 2008 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 2008, the Medicare shortfall for White County Memorial Hospital was \$6,379,544.

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 2008, the Medicaid shortfall for White County Memorial Hospital was \$2,206,459.

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 2008, White County Memorial Hospital provided \$576,087 in charity care.

# WHITE COUNTY MEMORIAL HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2008 AND 2007

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Education: In 2008, White County Memorial Hospital spent \$78,864 on educational programs for the residents of White County and the Hospital staff. This does not include conferences and seminars. These education programs included: Advanced Cardiac Life Support, Breast Feeding/Pregnancy counseling, Car Seat Education/Permanent Fitting Station, CPR/1<sup>st</sup> 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 tuition assistance in-house.

Special Programs: In 2008, White County Memorial Hospital spent \$165,764 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.

The Community Benefit total for 2008 was \$9,406,718.

### **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 Financial Officer at 720 South Sixth St., Monticello, IN 47960.

# WHITE COUNTY MEMORIAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,650,404	\$ 3,967,290
Short-term investments	1,167,844	1,229,616
Current portion of assets limited as to use	1,076,819	2,788,624
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$2,371,635 and \$1,760,000 in 2008 and 2007, respectively	4,192,362	3,707,655
Supplies and other current assets	1,127,026	921,028
Current portion of pledges receivable	146,688	419,999
Estimated third-party settlements	-0-	1,098,347
Total current assets	<u>11,361,143</u>	<u>14,132,559</u>
<b>Assets limited as to use</b>		
Board designated funds	375,000	1,991,655
Trustee held funds	1,263,880	12,954,782
Donor restricted funds	155,615	368,941
	<u>1,794,495</u>	<u>15,315,378</u>
Less amount for current obligations	1,076,819	2,788,624
Noncurrent assets limited as to use	<u>717,676</u>	<u>12,526,754</u>
<b>Capital assets, net</b>	40,893,367	24,665,137
<b>Investments</b>	809,543	722,525
<b>Other assets</b>		
Pledges receivable	880,136	638,177
Other	270,840	394,251
Total assets	<u>\$ 54,932,705</u>	<u>\$ 53,079,403</u>

See accompanying notes to combined financial statements.

# WHITE COUNTY MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS  
DECEMBER 31, 2008 AND 2007

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## LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<b>Current liabilities</b>		
Current portion of long term debt	\$ 1,076,819	\$ 2,788,624
Accounts payable and accrued expenses	707,369	222,252
Accrued salaries and benefits	1,322,749	1,358,279
Estimated third-party settlements	287,006	-0-
Total current liabilities	<u>3,393,943</u>	<u>4,369,155</u>
<b>Long term debt, net of current portion</b>	33,738,697	31,666,376
<b>Other liabilities</b>	<u>3,732,920</u>	<u>1,576,301</u>
Total liabilities	40,865,560	37,611,832
<b>Net assets</b>		
Unrestricted	4,628,790	8,797,239
Unrestricted - funded depreciation	375,000	1,991,655
Invested in capital assets, net of related debt	5,704,765	936,731
Restricted		
Expendable - Foundation	1,566,009	1,144,817
Expendable - debt service	1,636,966	2,228,188
Expendable - donor restricted	155,615	368,941
Total net assets	<u>14,067,145</u>	<u>15,467,571</u>
Total liabilities and net assets	<u><u>\$ 54,932,705</u></u>	<u><u>\$ 53,079,403</u></u>

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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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 24,866,299	\$ 23,205,823
Other	682,924	487,249
Total operating revenues	<u>25,549,223</u>	<u>23,693,072</u>
<b>Operating expenses</b>		
Salaries and benefits	13,964,362	13,420,767
Professional fees	3,853,847	3,261,739
Medical supplies and drugs	2,914,430	3,120,286
Repairs and maintenance	566,595	574,635
Depreciation and amortization	937,080	576,720
Insurance	269,712	280,911
Other	2,769,248	2,115,247
Total operating expenses	<u>25,275,274</u>	<u>23,350,305</u>
Operating income	273,949	342,767
<b>Nonoperating income (expense)</b>		
Investment income	119,412	366,302
Interest expense	(450,995)	(27,637)
Unrealized loss on interest rate swap	(2,156,619)	(600,014)
Other nonoperating income (expense)	412,647	60,040
Total nonoperating income (expense)	<u>(2,075,555)</u>	<u>(201,309)</u>
<b>Capital contributions</b>	401,180	1,115,452
<b>Transfers from the county</b>	<u>-0-</u>	<u>716,000</u>
Change in net assets	(1,400,426)	1,972,910
<b>Net assets</b>		
Beginning of year	15,467,571	13,494,661
End of year	<u>\$ 14,067,145</u>	<u>\$ 15,467,571</u>

See accompanying notes to combined financial statements.

# WHITE COUNTY MEMORIAL HOSPITAL

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

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	<u>2008</u>	<u>2007</u>
<b>Operating activities</b>		
Cash received from patients and third party payors	\$ 25,766,945	\$ 21,910,340
Cash paid to employees for salaries and benefits	(13,999,892)	(13,130,059)
Cash paid to vendors for goods and services	(9,977,660)	(11,565,207)
Other operating receipts, net	756,155	486,896
Net cash flows from operating activities	<u>2,545,548</u>	<u>(2,298,030)</u>
<b>Noncapital financing activities</b>		
Other nonoperating income	412,647	60,040
<b>Capital and related financing activities</b>		
Transfers from the county	-0-	716,000
Capital contributions	401,180	1,115,452
Acquisition and construction of capital assets	(14,923,654)	(16,646,006)
Interest expense on long-term debt	(450,995)	(27,637)
Proceeds from issuance of long term debt	-0-	8,000,000
Principal payments on long-term debt and line of credit	(1,948,013)	(4,134,627)
Net cash flows from capital and related financing activities	<u>(16,921,482)</u>	<u>(10,976,818)</u>
<b>Investing activities</b>		
Investment income	119,412	366,302
Change in assets whose use is limited, net	2,125,000	17,947,000
Change in investments, net	6,106	(864,626)
Net cash flows from investing activities	<u>2,250,518</u>	<u>17,448,676</u>
Net change in cash and cash equivalents	(11,712,769)	4,233,868
<b>Cash and cash equivalents</b>		
Beginning of year	<u>17,157,668</u>	<u>12,923,800</u>
End of year	<u>\$ 5,444,899</u>	<u>\$ 17,157,668</u>

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See accompanying notes to combined financial statements.

# WHITE COUNTY MEMORIAL HOSPITAL

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

	2008	2007
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 273,949	\$ 342,767
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	937,080	576,720
Provision for bad debt	3,386,552	2,210,312
Loss on disposal of property and equipment	73,231	299
Changes in assets and liabilities		
Patient accounts receivable	(3,871,259)	(1,910,341)
Estimated third-party settlements	1,385,353	(1,595,454)
Supplies and other current assets	(205,998)	(331,025)
Other assets	117,053	(598,592)
Accounts payable and accrued expenses	485,117	(317,424)
Accrued salaries and benefits	(35,530)	290,708
Other current liabilities	-0-	(250,000)
Other liabilities	-0-	(716,000)
Net cash flows from operating activities	\$ 2,545,548	\$ (2,298,030)
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 3,650,404	\$ 3,967,290
In assets limited as to use	1,794,495	13,190,378
Total cash and cash equivalents	\$ 5,444,899	\$ 17,157,668
<b>Supplemental cash flows information</b>		
Cash paid for interest net of amounts capitalized of \$580,144 in 2008 and \$1,772,000 in 2007	\$ 435,000	\$ 28,000
Property acquired through capital lease obligations	\$ 2,308,529	\$ -0-
<b>Non cash investing and financing activities</b>		
Unrealized loss on interest rate swap	\$ 2,156,619	\$ 600,014

See accompanying notes to combined financial statements

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 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, 2008 and 2007 were \$1,612,038 and \$1,282,908, respectively. The Foundation's change in net assets for 2008 and 2007 was \$329,130 and \$1,022,356 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, 2008 and 2007 were \$8,581,182 and \$8,222,940, respectively. The MOB's net assets as of December 31, 2008 and 2007 were (\$318,672) and \$27,711, respectively. During 2007, the MOB received proceeds from a loan in the amount of \$8,000,000 for construction. The MOB's change in net assets for 2008 and 2007 was (\$346,383) and \$28,011, respectively.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 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.

### Assets Limited as To Use

#### *Board Designated*

Board designated funds are set aside by the Hospital Board of Trustees for funding depreciation expense and other operating designations. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as well as other operational designations.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### *Funds Held by Trustee*

Funds held by trustee represent amounts deposited with a trustee in accordance with the requirements of a trust indenture.

### *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 2008 and 2007 was \$580,144 and \$1,772,000, respectively.

### 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 \$266,000 and \$275,000, respectively. Issue costs are amortized utilizing the straight-line method.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 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 the County

The Hospital receives transfers from the county. The transfers from the 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, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures for debt service. 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. 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.

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# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 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.

### 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.

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# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2008 and 2007 were \$155,378 and \$123,281, respectively.

### Reclassifications

Certain amounts from 2007 have been reclassified to conform to the 2008 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 October 1, 2009.

## 2. 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 2006. 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 45 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended 2008, and 43 percent and 4 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.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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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 \$1,363,619 and \$1,095,859 during the years ended December 31, 2008 and 2007, 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.

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

	<u>2008</u>	<u>2007</u>
Inpatient services	\$ 8,789,469	\$ 8,969,569
Outpatient services	<u>32,178,657</u>	<u>29,867,596</u>
Gross patient service revenue	40,968,126	38,837,165
Contractual allowances	12,139,188	12,956,708
Provision for bad debt	3,386,552	2,210,312
Charity care	<u>576,087</u>	<u>464,322</u>
Deductions from revenue	<u>16,101,827</u>	<u>15,631,342</u>
Net patient service revenue	<u>\$ 24,866,299</u>	<u>\$ 23,205,823</u>

### 3. CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were \$576,087 and \$464,322 for 2008 and 2007, respectively.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 4. ASSETS LIMITED AS TO USE

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

	<u>2008</u>	<u>2007</u>
Board designated funds		
Funded depreciation and other		
Cash and cash equivalents	\$ 375,000	\$ 1,991,655
Funds held by Trustee		
Cash and cash equivalents	1,263,880	10,829,782
Certificates of deposit	-0-	2,125,000
Donor restricted funds		
Cash and cash equivalents	58,029	215,331
Funds held by others - cash and cash equivalents	<u>97,586</u>	<u>153,610</u>
Total assets limited as to use	<u>\$ 1,794,495</u>	<u>\$ 15,315,378</u>

### 5. DEPOSITS AND INVESTMENTS

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

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

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS 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

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 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-
	<u>\$ 1,977,387</u>	<u>\$ 212,845</u>	<u>\$ 1,473,712</u>	<u>\$ 205,709</u>	<u>\$ 85,121</u>

December 31, 2007

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 31,589	\$ 31,589	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	473,794	233,018	141,378	8,901	90,497
Certificates of Deposit	3,571,758	3,090,009	395,003	50,451	36,295
	<u>\$ 4,077,141</u>	<u>\$ 3,354,616</u>	<u>\$ 536,381</u>	<u>\$ 59,352</u>	<u>\$ 126,792</u>

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

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

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

	<u>2008</u>	<u>2007</u>
Carrying amount		
Deposits	\$ 5,444,899	\$ 17,157,668
Investments	1,977,387	4,077,141
	<u>\$ 7,422,286</u>	<u>\$ 21,234,809</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 3,650,404	\$ 3,967,290
Short-term investments	1,167,844	1,229,616
Current portion of assets limited as to use	1,076,819	2,788,624
Noncurrent assets limited as to use	717,676	12,526,754
Investments	809,543	722,525
	<u>\$ 7,422,286</u>	<u>\$ 21,234,809</u>

## 6. FAIR VALUE MEASUREMENTS

A new accounting pronouncement requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments included in assets whose use is limited, which are measured using quoted prices in active markets and other significant other observable inputs.

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

This pronouncement 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 2009. When fully adopted, the Hospital will apply the provisions the pronouncement to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the operations, changes in net assets and balance sheet. Using the provisions within the pronouncement, 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.

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# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Investments recorded in the combined balance sheet 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 are comprised of equities and mutual funds.

*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 certificates of deposit, government securities and corporate bonds.

*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.

Based upon the levels as defined the investments as of December 31, 2008 are classified as follows:

Investment Type	December 31, 2008	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 63,372	\$ 63,372	\$ -0-	\$ -0-
U.S. Government Securities	136,427	-0-	136,427	-0-
Certificates of deposit	1,777,588	-0-	1,777,588	-0-
	<u>\$ 1,977,387</u>	<u>\$ 63,372</u>	<u>\$ 1,914,015</u>	<u>\$ -0-</u>

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

### 7. 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.

	2008	2007
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 6,220,380	\$ 5,519,895
Receivable from Medicare	1,283,778	1,091,804
Receivable from Medicaid	972,106	579,735
Total patient accounts receivable	8,476,264	7,191,434
Less allowance for contractual agreements and uncollectible amounts	4,283,902	3,483,779
Patient accounts receivable, net	\$ 4,192,362	\$ 3,707,655
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers and other	\$ 707,369	\$ 222,252
Payable to employees (including payroll taxes and benefits)	1,322,749	1,358,279
Total accounts payable and accrued expenses	\$ 2,030,118	\$ 1,580,531

### 8. CAPITAL ASSETS

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

	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	6,244,944	1,003,602	(695,799)	2,332,362	8,885,109
Construction in progress	14,333,728	16,192,627	-0-	(30,173,587)	352,768
Total	35,920,143	17,232,183	(1,388,684)	-0-	51,763,642
Accumulated depreciation	11,255,006	930,722	(1,315,453)	-0-	10,870,275
Net capital assets	\$ 24,665,137	\$ 16,301,461	\$ (73,231)	\$ -0-	\$ 40,893,367

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
Land	\$ 982,570	\$ -0-	\$ -0-	\$ -0-	\$ 982,570
Land improvements	281,592	-0-	-0-	362,580	644,172
Buildings	9,773,154	-0-	-0-	3,941,575	13,714,729
Equipment	6,242,511	127,501	(196,160)	71,092	6,244,944
Construction in progress	2,190,470	16,518,505	-0-	(4,375,247)	14,333,728
Total	19,470,297	16,646,006	(196,160)	-0-	35,920,143
Accumulated depreciation	10,935,646	515,221	(195,861)	-0-	11,255,006
Net capital assets	<u>\$ 8,534,651</u>	<u>\$ 16,130,785</u>	<u>\$ (299)</u>	<u>\$ -0-</u>	<u>\$ 24,665,137</u>

### 9. 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. During 2006, the Hospital entered into an interest rate swap agreement (see footnote 11).

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, 2008. 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 90 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. Management believes they are in compliance with the financial covenants.

The Hospital participated in a 1994 Indiana Health Facility Financing Authority (IHFFA) revenue bond issue for \$4,900,000 to help fund remodeling and construction at the Hospital. The Hospital used the Series 2006 Revenue Bonds to pay off the remaining 1994 IHFFA balance during 2007. Interest rates ranged from 5.70% to 6.25%.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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%. Concurrently, the Hospital borrowed an additional \$1,000,000, secured by certain accounts receivable, also due February 27, 2010, with a variable interest rate at prime (4.25% at February 27, 2009).

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%.

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

	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-	(325,022)	7,674,978	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
<b>Total</b>	<b>\$ 34,455,000</b>	<b>\$ 2,308,529</b>	<b>\$ (1,948,013)</b>	<b>\$ 34,815,516</b>	<b>\$ 1,076,819</b>

	Balance December 31, 2006	Additional borrowings	Payments	Balance December 31, 2007	Current portion
2006 Bonds	\$ 25,500,000	\$ -0-	\$ -0-	\$ 25,500,000	\$ 1,500,000
1994 IHFA revenue bonds	3,180,000	-0-	(3,180,000)	-0-	-0-
Twin Lakes MOB loan	-0-	8,000,000	-0-	8,000,000	333,624
Note Payable - Land	955,000	-0-	-0-	955,000	955,000
<b>Total</b>	<b>\$ 29,635,000</b>	<b>\$ 8,000,000</b>	<b>\$ (3,180,000)</b>	<b>\$ 34,455,000</b>	<b>\$ 2,788,624</b>

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,076,819	1,652,993	\$ 2,729,812
2010	2,095,796	1,587,128	3,682,924
2011	1,213,341	1,516,952	2,730,293
2012	1,281,630	1,441,919	2,723,549
2013	1,605,735	1,362,602	2,968,337
2014-2018	5,571,657	5,799,145	11,370,802
2019-2023	6,210,538	4,152,754	10,363,292
2024-2028	4,165,000	3,002,980	7,167,980
2029-2033	5,170,000	2,038,804	7,208,804
2034-2038	6,425,000	841,004	7,266,004
	<u>\$ 34,815,516</u>	<u>\$ 23,396,281</u>	<u>\$ 58,211,797</u>

### 10. DEFERRED COMPENSATION AGREEMENT

A deferred compensation agreement (the plan) was established for the CEO of the Hospital. 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. The plan is expected to continue for the duration of the employment of the CEO. However, it can be terminated annually.

### 11. INTEREST RATE SWAP

During October of 2006, management entered into a "cash flow hedge interest rate swap" agreement with a financial institution related to the 2006 revenue bonds with a maturity date of October 1, 2021. The Hospital pays a fixed interest rate, 4.24%, and the financial institution pays a variable interest rate (2.69% and 3.46% at December 31, 2008 and 2007). The notional amount was \$24,000,000 as of December 31, 2008 and 2007. The total derivative liability for the Hospital is \$3,732,920 and \$1,576,301 as of December 31, 2008 and 2007.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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The Hospital's objective is to provide protection against market driven increases in variable interest rates. The fair value of the agreement was determined by the financial institution using the present value of the estimated projected cash flows. The Hospital is in a liability position as of December 31, 2008 and 2007 due to the present value of its estimated projected cash flows being greater than the financial institution's present value of estimated projected cash flows. The agreement contains certain termination provisions depending upon the facts and circumstances surrounding the terminating event.

### 12. 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 \$1,480,626 and \$1,885,291 for the years ended December 31, 2008 and 2007, 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.

### 13. 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, 2008 and 2007 were \$738,260 and \$711,627, respectively.

# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 14. 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 from patients and third-party payors at December 31 is as follows:

	<u>2008</u>	<u>2007</u>
Medicare	16%	16%
Medicaid	12%	8%
Blue Cross	7%	7%
Other Third-Party Payors	16%	16%
Patients	<u>49%</u>	<u>53%</u>
Total	<u>100%</u>	<u>100%</u>

### 15. 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.

### 16. 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 2008 and 2007 for all operating leases was \$1,084,792 and \$858,801, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 1,047,574
2010	845,442
2011	783,683
2012	778,570
2013	<u>644,842</u>
	<u>\$ 4,100,111</u>

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# WHITE COUNTY MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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### 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, 2008:

<u>Years Ending December 31,</u>	<u>Amount</u>
2009	\$ 342,912
2010	291,336
2011	291,336
2012	291,336
2013	291,336
Thereafter	930,284
	<u>\$ 2,438,540</u>

### Service Agreements

The Hospital is involved in a service agreement for 2008 and 2007 for emergency services which 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, 2008 and 2007.

### 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.

### Property Contingency

The property and equipment related to the former location of the Hospital at 1101 O'Connor Boulevard is included in the capital assets, net. The use of the property and equipment is not readily determinable. Management is considering various options including using it for physician services, other healthcare services, or potentially transferring the property to the County.