



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B40171

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

March 13, 2012

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, 2010 to December 31, 2010. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the White County Memorial Hospital, as of December 31, 2010 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

CPAs / ADVISORS



WHITE COUNTY MEMORIAL HOSPITAL

TABLE OF CONTENTS DECEMBER 31, 2010 AND 2009

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

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
White County Memorial Hospital
Monticello, IN

We have audited the accompanying consolidated balance sheets of White County Memorial Hospital (the Hospital), a component unit of White County, as of December 31, 2010 and 2009, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2010 and 2009, and its results of operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Board of Trustees
White County Memorial Hospital
Monticello, IN

As discussed in Note 3 to the consolidated financial statements, after further communication and clarification with a donor, management discovered that a previously recorded contribution should have not been recorded, which resulted in overstatement of pledges receivable, contribution revenue and net assets in the previously issued 2009 consolidated financial statements. Accordingly, the accompanying 2009 consolidated financial statements have been restated to remove the associated contribution.

As described in Note 18 to the consolidated financial statements, effective July 1, 2011, the Hospital closed on an affiliation and asset purchase transaction from which, among other terms, conditions, and stipulations, the Hospital and its component units sold substantially all of the assets and liabilities.

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

Blue & Co., LLC

January 26, 2012

REQUIRED SUPPLEMENTARY INFORMATION

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 (with comparative totals for 2009 and 2008)

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, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's audited consolidated financial statements. This discussion and analysis includes the Hospital, Twin Lakes Medical Office Building, LLC (Twin Lakes) and the White County Memorial Hospital Foundation (the Foundation), component units of the Hospital.

SUBSEQUENT EVENT - AFFILIATION AND ASSET PURCHASE AGREEMENT

The Hospital and the Association entered into to an affiliation and asset purchase agreement with Indiana University Health (IU Health), an Indiana nonprofit corporation, Indiana University Health Arnett (IUH Arnett), an Indiana nonprofit corporation, and Indiana University Health White Memorial Hospital (IUH White), an Indiana nonprofit corporation, effective July 1, 2011, on which, among other terms, conditions, and stipulations, IUH White purchased substantially all of the assets and assumed substantially all of the liabilities, except for specific excluded assets and liabilities, of the Hospital, the Association, and Twin Lakes. The Foundations assets and liabilities and resulting net assets (\$157,000 at June 30, 2011) were excluded from the sale and concurrently the Foundation Board agreed to amend the governing documents to support IUH White.

The purchase price was \$955,000 payable in 10 equal annual installments to White County.

Pursuant to the aforementioned affiliation and asset purchase agreement with IU Health, which was effective July 1, 2011 (see Note 18), IU Health paid certain outstanding debt of the Hospital and the Association as of June 30, 2011, including the Series 2006 adjustable rate demand lease rental revenue bonds (\$22,970,000) and the interest rate swap derivative (\$3,430,700) net of the then existing trustee held assets (\$1,500,000) resulting in a related party note payable due to IU Health in the amount of \$24,900,700 as of June 30, 2011, with principal payments due semi-annually in ratably increasing amounts ranging from \$179,326 to \$903,063, excluding variable interest equaling the rate on IU Health's line of credit (.4% at June 30, 2011) through October 1, 2038.

As a result of the affiliation and asset purchase, beginning July 1, 2011, substantially all assets and related liabilities of the Hospital, the Association, and Twin Lakes were effectively transferred to IUH White.

FINANCIAL HIGHLIGHTS

- Total assets decreased approximately \$1,292,000 compared to 2009.
 - Capital assets decreased by approximately \$1,971,000 due to depreciation expense less purchases of capital equipment.
-

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 (with comparative totals for 2009 and 2008)

- Cash and cash equivalents in current assets increased by approximately \$471,000.
- Total liabilities increased approximately \$105,000 compared to 2009.
- Repayment of the draw on the line of credit decreased liabilities by \$1,000,000
- Long-term debt decreased approximately \$1,139,000 in 2010.
- Estimated third party settlements increased by approximately \$1,983,000 in 2010.
- Net assets decreased by approximately \$1,397,000 in 2010.
- Current year bond swap activity resulted in a non-operating loss of approximately \$397,000, thus reducing net assets. This is in contrast to 2009 where the bond swap activity resulted in a non-operating gain of approximately \$1,239,000. Bond swap activities are non-cash transactions.
- Operating revenue decreased approximately \$1,210,000 or 4.3% over 2009.
- Operating expenses decreased approximately \$1,560,000 or 5.6 % over 2009.
- Operating income was approximately \$463,000 in 2010 compared to approximately \$114,000 in 2009.

USING THIS ANNUAL REPORT

The Hospital's consolidated 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.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 (with comparative totals for 2009 and 2008)

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

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

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.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 (with comparative totals for 2009 and 2008)

Balance Sheets

The following is a summary of the consolidated balance sheets as of December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current assets	\$ 9,295,231	\$ 8,892,731	\$ 10,326,458
Capital assets, net	34,153,820	36,124,607	40,893,367
Other noncurrent assets	4,227,174	3,951,330	3,356,773
Total assets	<u>\$ 47,676,225</u>	<u>\$ 48,968,668</u>	<u>\$ 54,576,598</u>
Liabilities			
Current liabilities	\$ 4,132,194	\$ 3,461,502	\$ 3,393,943
Other liabilities	35,896,838	36,462,840	37,471,617
Total liabilities	<u>40,029,032</u>	<u>39,924,342</u>	<u>40,865,560</u>
Net assets			
Unrestricted	3,483,298	4,005,840	3,673,790
Invested in capital assets, net of related debt	142,720	974,852	6,077,851
Restricted			
Expendable - Foundation	127,876	166,803	1,209,902
Expendable - capital replacement and debt service	3,684,055	3,725,283	2,593,880
Expendable - donor restricted	209,244	171,548	155,615
Total net assets	<u>7,647,193</u>	<u>9,044,326</u>	<u>13,711,038</u>
Total liabilities and net assets	<u>\$ 47,676,225</u>	<u>\$ 48,968,668</u>	<u>\$ 54,576,598</u>

Total assets decreased by approximately \$1,300,000 from December 31, 2009 to December 31, 2010 primarily due to the decrease in capital assets as depreciation outpaced additions. Total liabilities increased by approximately \$105,000 from December 31, 2009 to December 31, 2010 which resulted from an increase in estimated third party settlements off-set by a decrease in the line of credit and as well as other liability decreases.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2010 (with comparative totals for 2009 and 2008)

Statements of Revenues and Expenses and Changes in Net Assets

The 2010, 2009, and 2008 information is summarized below:

	2010	2009	2008
Operating revenues	\$ 26,529,436	\$ 27,739,874	\$ 25,549,223
Operating expenses			
Salaries and benefits	12,331,053	14,456,035	13,964,362
Professional fees	4,717,457	4,097,242	3,853,847
Medical supplies and drugs	2,980,067	2,778,247	2,914,430
Repairs and maintenance	813,705	401,703	566,595
Depreciation and amortization	2,010,584	2,212,047	937,080
Insurance	325,643	314,853	269,712
Other	2,887,854	3,366,206	2,769,248
Total operating expenses	26,066,363	27,626,333	25,275,274
Operating income	463,073	113,541	273,949
Nonoperating income (expense)	(1,922,526)	(907,674)	(2,075,555)
Revenues under expenses before capital contributions and special items	(1,459,453)	(794,133)	(1,801,606)
Capital contributions	62,320	28,644	401,180
Special item - impairment charge on building	-0-	(3,901,223)	-0-
Change in net assets	\$ (1,397,133)	\$ (4,666,712)	\$ (1,400,426)

Net operating income increased \$350,000 from 2009 to 2010 due to reductions in the salary and benefit costs in excess of the decrease in operating revenues, which were a result of decreased volume. Salaries and benefits decreased approximately \$2,125,000 due to controlled salary expense and changes in the structure of the health insurance and pension plans.

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, 2010 (with comparative totals for 2009 and 2008)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash flows from			
Operating	\$ 4,159,175	\$ 2,115,845	\$ 2,576,900
Noncapital financing	476,886	27,033	412,647
Capital and related financing	(4,205,923)	(2,307,712)	(16,921,482)
Investing	7,407	(983,451)	2,219,166
	<u>\$ 437,545</u>	<u>\$ (1,148,285)</u>	<u>\$ (11,712,769)</u>

Total cash and cash equivalents increased \$438,000 mainly through operating and noncapital sources outpacing capital, related financing and investing uses.

SOURCES OF REVENUE

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:

<u>Payor Mix</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	46%	43%	45%
Medicaid	16%	16%	13%
Commercial Insurance	31%	33%	35%
Self-pay / Other	7%	8%	7%
Total	<u>100%</u>	<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, 2010 (with comparative totals for 2009 and 2008)

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

	2010	2009	2008
Patient Days	5,109	5,586	5,281
Med/Surg Days	2,864	2,939	2,760
SCU Days	132	199	174
Pharmacy Units	397,750	346,584	344,519
Outpatient Visits	31,668	31,439	31,582
ED Visits	13,643	13,388	12,369
Laboratory Exams	105,302	110,034	101,170
X-Ray Exams	22,782	23,346	20,586
Nuclear Medicine Exams	325	525	376
CT Scans	5,646	5,569	3,889
Ultra Sound Exams	2,762	2,875	2,607
MRI's	851	807	758
Physical Therapy	13,251	11,604	10,844
Occupational Therapy	2,408	2,257	1,955
Operating Procedures	1,041	1,070	1,091
Oncology	2,046	1,604	1,534
Ambulatory Care	4,742	5,016	4,351
Durable Medical Equipment	3,345	3,835	4,158

CAPITAL IMPROVEMENTS

Highlights of capital purchases acquired in 2010 included the purchase of Grasshopper Lawn Maintenance Equipment and Astaro Antivirus Software.

DEBT

During 2010, the Hospital continued to service the existing debt without any significant borrowings.

As of June 30, 2011, pursuant to the Affiliation and Asset Purchase Agreement with IU Health and related entities the 2006 bond and the interest rate swap liability were paid off resulting in a note payable in the amount of \$24,900,700, due annually on October 1 in the amount \$939,021, including variable interest equaling the rate on IU Health's line of credit (.4% at June 30, 2011) through October 1, 2038.

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

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2010
(with comparative totals for 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

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

	2010	Restated 2009
Current assets		
Cash and cash equivalents	\$ 2,870,786	\$ 2,399,783
Short-term investments	53,763	131,095
Current portion of assets limited as to use	975,376	1,151,287
Patient accounts receivable, net of allowance and for doubtful accounts of \$2,477,674 \$2,843,659 in 2010 and 2009, respectively	4,571,903	3,916,824
Supplies and other current assets	812,991	979,059
Current portion of pledges receivable	10,412	54,268
Estimated third-party settlements	-0-	260,415
Total current assets	<u>9,295,231</u>	<u>8,892,731</u>
Assets limited as to use		
Funds held for capital replacement and debt service	3,684,055	3,725,283
Donor restricted funds	209,224	171,548
	<u>3,893,279</u>	<u>3,896,831</u>
Less amount for current obligations	975,376	1,151,287
Noncurrent assets limited as to use	<u>2,917,903</u>	<u>2,745,544</u>
Capital assets, net	34,153,820	36,124,607
Investments	1,058,047	930,907
Other assets		
Pledges receivable	-0-	14,097
Other	251,224	260,782
Total assets	<u><u>\$ 47,676,225</u></u>	<u><u>\$ 48,968,668</u></u>

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>Restated 2009</u>
Current liabilities		
Current portion of long term debt	\$ 975,376	\$ 1,151,287
Line of credit	-0-	1,000,000
Accounts payable and accrued expenses	677,713	511,130
Accrued salaries and benefits	756,849	799,085
Estimated third-party settlements	1,722,256	-0-
Total current liabilities	<u>4,132,194</u>	<u>3,461,502</u>
Long term debt, net of current portion	33,035,724	33,998,468
Derivative liability	<u>2,861,114</u>	<u>2,464,372</u>
Total liabilities	40,029,032	39,924,342
Net assets		
Unrestricted	3,483,298	4,005,840
Invested in capital assets, net of related debt	142,720	974,852
Restricted		
Expendable - Foundation	127,876	166,803
Expendable - capital replacement and debt service	3,684,055	3,725,283
Expendable - donor restricted	209,244	171,548
Total net assets	<u>7,647,193</u>	<u>9,044,326</u>
Total liabilities and net assets	<u>\$ 47,676,225</u>	<u>\$ 48,968,668</u>

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

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

	2010	Restated 2009
Operating revenues		
Net patient service revenue	\$ 25,921,622	\$ 27,163,114
Other	607,814	576,760
Total operating revenues	26,529,436	27,739,874
Operating expenses		
Salaries and benefits	12,331,053	14,456,035
Professional fees	4,717,457	4,097,242
Medical supplies and drugs	2,980,067	2,778,247
Repairs and maintenance	813,705	401,703
Depreciation and amortization	2,010,584	2,212,047
Insurance	325,643	314,853
Other	2,887,854	3,366,206
Total operating expenses	26,066,363	27,626,333
Operating income	463,073	113,541
Nonoperating income (expense)		
Investment income	93,479	110,088
Interest expense	(2,096,149)	(2,313,343)
Unrealized gain (loss) on interest rate swap	(396,742)	1,268,548
Other nonoperating income	476,886	27,033
Total nonoperating income (expense)	(1,922,526)	(907,674)
Revenues under expenses before capital contributions and special items	(1,459,453)	(794,133)
Capital contributions	62,320	28,644
Special item - impairment charge on building	-0-	(3,901,223)
Change in net assets	(1,397,133)	(4,666,712)
Net assets		
Beginning of year as restated	9,044,326	13,711,038
End of year	\$ 7,647,193	\$ 9,044,326

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

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

	2010	Restated 2009
Operating activities		
Cash received from patients and third party payors	\$ 27,249,214	\$ 26,891,231
Cash paid to employees for salaries and benefits	(12,373,289)	(14,979,699)
Cash paid to vendors for goods and services	(11,382,517)	(10,991,465)
Other operating receipts, net	665,767	1,195,778
Net cash flows from operating activities	4,159,175	2,115,845
Noncapital financing activities		
Other nonoperating income	476,886	27,033
Capital and related financing activities		
Capital contributions	62,320	28,644
Proceeds from debt instruments	16,700	1,405,000
Acquisition and construction of capital assets	(33,439)	(1,357,216)
Interest expense on long-term debt	(2,096,149)	(2,313,343)
Borrowings (payments) on line of credit, net	(1,000,000)	1,000,000
Principal payments on long-term debt	(1,155,355)	(1,070,797)
Net cash flows from capital and related financing activities	(4,205,923)	(2,307,712)
Investing activities		
Investment income	93,479	110,088
Change in assets whose use is limited, net	(36,264)	(1,053,924)
Change in investments, net	(49,808)	(39,615)
Net cash flows from investing activities	7,407	(983,451)
Net change in cash and cash equivalents	437,545	(1,148,285)
Cash and cash equivalents		
Beginning of year	4,296,614	5,444,899
End of year	\$ 4,734,159	\$ 4,296,614

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

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

	2010	Restated 2009
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 463,073	\$ 113,541
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,010,584	2,212,047
Provision for bad debt	3,251,399	3,835,334
Loss on disposal of property and equipment	-0-	21,666
Changes in assets and liabilities		
Patient accounts receivable	(3,906,478)	(3,559,796)
Estimated third-party settlements	1,982,671	(547,421)
Supplies and other current assets	166,068	147,967
Pledges receivable, net	57,953	597,352
Other assets	9,558	15,058
Accounts payable and accrued expenses	166,583	(196,239)
Accrued salaries and benefits	(42,236)	(523,664)
Net cash flows from operating activities	\$ 4,159,175	\$ 2,115,845
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 2,870,786	\$ 2,399,783
In assets limited as to use	1,863,373	1,896,831
Total cash and cash equivalents	\$ 4,734,159	\$ 4,296,614
 Non cash investing, capital and related financing activities		
Unrealized gain (loss) on interest rate swap	\$ (396,742)	\$ 1,268,548
Impairment charge on building	\$ -0-	\$ (3,901,122)

See accompanying notes to consolidated financial statements

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Basis for Consolidation

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, 2010 and 2009 were \$137,876 and \$213,515, respectively. The Foundation's change in net assets for 2010 and 2009 was \$(75,639) and \$(1,042,416), 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, 2010 and 2009 were \$8,014,090 and \$8,462,660, respectively. The MOB's net assets as of December 31, 2010 and 2009 were (\$1,773,657) and (\$1,053,702), respectively. The MOB's change in net assets for 2010 and 2009 was (\$719,955) and (\$735,030) respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Accounting Standards

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

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.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is generally exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). As a governmental entity, the Hospital is not required to file Federal Form 990 – Return of Organization from Income Tax which is an informational return only.

The Foundation is organized as a not-for-profit corporation under Section 501(c) (3) of the United States Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization from Income Tax which is an informational return only.

Twin Lakes Medical Office Building, LLC is limited liability company whereby, net taxable income, if any and applicable, is taxed directly to the member and not the Company. Required tax filings have been filed through December 31, 2010.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

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.

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.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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 for December 31, 2010 and 2009 were approximately \$246,924 and \$256,482, respectively. Issue costs are amortized over the term of the bonds.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2010 and 2009 were \$92,159 and \$132,161, respectively.

Reclassifications

Certain amounts from 2009 have been reclassified to conform to the 2010 presentation.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is January 26, 2012.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

2. CHANGE IN ACCOUNTING PRINCIPLE

The Hospital adopted the requirements of GASB No. 53, Accounting and Financial Reporting for Derivative Instruments. The Hospital is a party to interest rate swap agreements which are derivative instruments. The new guidance requires governmental entities to evaluate each derivative instrument to determine whether the instrument is an effective hedge. For those instruments deemed to be an effective hedge, governmental entities are required to practice hedge accounting and the instrument continues to be reevaluated at the end of each future reporting period. Under hedge accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry to deferred outflows or deferred inflows, which also reported on the consolidated balance sheet.

For those instruments deemed to be an ineffective hedge, governmental entities are required to practice investment accounting and the instruments are not evaluated in future reporting periods. Once deemed ineffective, the instrument is considered ineffective for the remainder of its term. Under investment accounting, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry posted to investment income. The Hospital's interest rate swap agreement was determined to be an ineffective hedge as of December 31, 2010 and 2009.

3. PRIOR PERIOD ADJUSTMENT

After further communication and clarification with a donor, management discovered that a previously recorded contribution should have not been recorded, which resulted in overstatement of pledges receivable, contribution revenue and net assets in the previously issued 2009 consolidated financial statements. Accordingly, the accompanying 2009 consolidated financial statements have been restated to remove the associated contribution..

	December 31, 2009		
	Originally Reported	Adjustment	Restated
Current portion of pledges receivable	\$ 592,004	\$ (537,736)	\$ 54,268
Net assets - unrestricted	\$ 3,965,712	\$ 40,128	\$ 4,005,840
Net assets - expendable Foundation	\$ 744,667	\$ (577,864)	\$ 166,803
Nonoperating income (expense)	\$ (403,216)	\$ (504,458)	\$ (907,674)
Capital contributions	\$ 61,922	\$ (33,278)	\$ 28,644
Change in net assets	\$ (4,128,976)	\$ (537,736)	\$ (4,666,712)
Cash flows - operating	\$ 1,569,253	\$ 546,592	\$ 2,115,845
Cash flows - noncapital financing	\$ 528,887	\$ (501,854)	\$ 27,033
Cash flows - capital and related financing	\$ (2,274,434)	\$ (33,278)	\$ (2,307,712)
Cash flows - investing	\$ (971,991)	\$ (11,460)	\$ (983,451)

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

4. SPECIAL ITEM - IMPAIRMENT CHARGE ON BUILDING

During 2009, management was in the process of determining the use of the former hospital building, equipment, and land and further recognized an impairment charge in the amount of \$3,901,223 within the 2009 financial statements. During 2010, the White County commissioners approved the Hospital's abandonment of the building.

5. 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 2008. 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 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 CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Patient service revenue for 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Inpatient services	\$ 9,511,678	\$ 8,789,469
Outpatient services	42,630,202	39,785,246
Gross patient service revenue	<u>52,141,880</u>	<u>48,574,715</u>
Contractual allowances	22,151,750	16,789,669
Provision for bad debt	3,251,399	3,835,334
Charity care	817,109	786,598
Deductions from revenue	<u>26,220,258</u>	<u>21,411,601</u>
Net patient service revenue	<u>\$ 25,921,622</u>	<u>\$ 27,163,114</u>

6. ASSETS LIMITED AS TO USE

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

	<u>2010</u>	<u>2009</u>
Funds held for capital replacement and debt service		
Cash and cash equivalents	\$ 1,654,149	\$ 1,725,283
Certificates of deposit	2,029,906	2,000,000
Donor restricted funds		
Cash and cash equivalents	70,735	49,129
Funds held by others - cash and cash equivalents	<u>138,489</u>	<u>122,419</u>
Total assets limited as to use	<u>\$ 3,893,279</u>	<u>\$ 3,896,831</u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2010

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 53,764	\$ 53,764	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	129,788	55,931	1,938	-0-	71,919
Certificates of Deposit	2,958,164	2,133,034	744,769	80,361	-0-
	<u>\$ 3,141,716</u>	<u>\$ 2,242,729</u>	<u>\$ 746,707</u>	<u>\$ 80,361</u>	<u>\$ 71,919</u>

December 31, 2009

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 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
	<u>\$ 3,062,002</u>	<u>\$ 187,026</u>	<u>\$ 2,719,396</u>	<u>\$ 26,068</u>	<u>\$ 129,512</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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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, 2010 and 2009:

	2010	2009
Carrying amount		
Deposits	\$ 4,734,159	\$ 4,296,614
Investments	3,141,716	3,062,002
	<u>\$ 7,875,875</u>	<u>\$ 7,358,616</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 2,870,786	\$ 2,399,783
Short-term investments	53,763	131,095
Current portion of assets limited as to use	975,376	1,151,287
Noncurrent assets limited as to use	2,917,903	2,745,544
Investments	1,058,047	930,907
	<u>\$ 7,875,875</u>	<u>\$ 7,358,616</u>

8. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Hospital has an interest rate swap agreement in effect as of December 31, 2010 for the Indiana Finance Authority Hospital Revenue Bonds, Series 2006.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Objectives and Strategies for Using Derivatives

As a means to manage the risk associated with interest rate risk on its variable rate debt, the Hospital entered into an interest rate swap agreement in connection with its Indiana Finance Authority Hospital Revenue Bonds, Series 2006. The intention of the swap agreement was to effectively change the Hospital's variable interest rate on the Series 2006 bonds to a fixed rate of 4.24%.

Terms, Fair Values and Credit Risk

The swap agreement relates to the Series 2006 bond with a notional amount totaling \$23,185,000. The Hospital is the counterparty of the swap agreement. The term and fair value of the outstanding swap as of December 31, 2010 is as follows:

<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fair Value</u>	<u>Termination Date</u>
\$ 23,185,000	10/26/2006	4.24%	0.30%	\$ (2,861,114)	10/1/2021

As of December 31, 2010, the negative fair value of the agreement may be countered by reductions in total interest payments under the swap agreement should the variable rate on the 2006 Series bonds increase. The variable rate on the swap is determined by USD-BMA Municipal Swap Index and resets monthly.

The counterparty carries a guarantee by an entity ("counterparty guarantor") rated Ba2 by Moody's Investors Service (Moody's), BBB- by Standard and Poor's (S&P), and BBB by Fitch Ratings (Fitch). To mitigate the potential for credit risk, the fair value of the swap must be collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as provided in the agreements.

Basis Risk

The swap interest rate is pegged to the USD-BMA Municipal Swap Index and the bonds interest rate is pegged to USD-LIBOR-BBA, therefore basis risk relating to the swap could be material.

Termination Risk

The Hospital or other counterparty may elect to terminate the swap early on October 16, 2016 or at any other time if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Hospital would be liable to the counterparty for a payment equal to the swap fair value.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Swap Payments and Associated Debt

Using rates as of December 31, 2010 debt service requirements of the variable rate debt and net swap payments of the Series 2006 bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in the Long Term Debt note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The Hospital has determined the swap to be an ineffective hedge. Accordingly, the fair value of the instrument is recorded on the consolidated balance sheet with the offsetting entry posted to investment income.

See Fair Value Measurements note for additional information.

Subsequent to December 31, 2010, the interest rate swap was settled. See Note 18.

9. FAIR VALUE MEASUREMENTS

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

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
Fixed Income Securities	\$ 129,788	\$ -0-	\$ 129,788	\$ -0-
Certificates of deposit and Cash and cash equivalents *	3,011,928			
	\$ 3,141,716			
Liabilities				
Derivative liability	\$ 2,861,114	\$ -0-	\$ 2,861,114	\$ -0-
December 31, 2009				
	Total	Level 1	Level 2	Level 3
Assets				
Investments & AWUIL				
U.S. Government Securities	\$ 138,643	\$ -0-	\$ 138,643	\$ -0-
Certificates of deposit and Cash and cash equivalents *	2,923,359			
	\$ 3,062,002			
Liabilities				
Derivative liability	\$ 2,464,372	\$ -0-	\$ 2,464,372	\$ -0-

*Certificates of deposit are reported at contract value

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

The carrying amount reported in the consolidated 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 based on short-term maturity.

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 based on incremental borrowing rate of similarly rated facilities.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

10. 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.

	2010	2009
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 6,927,329	\$ 5,742,862
Receivable from Medicare	1,333,784	1,283,778
Receivable from Medicaid	368,913	972,106
Total patient accounts receivable	8,630,026	7,998,746
Less allowance for contractual agreements and uncollectible amounts	4,058,123	4,081,922
Patient accounts receivable, net	\$ 4,571,903	\$ 3,916,824
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers and other	\$ 677,713	\$ 511,130
Payable to employees (including payroll taxes and benefits)	756,849	799,085
Total accounts payable and accrued expenses	\$ 1,434,562	\$ 1,310,215

11. CAPITAL ASSETS

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

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 954,570	\$ -0-	\$ -0-	\$ -0-	\$ 954,570
Land improvements	1,845,691	-0-	-0-	-0-	1,845,691
Buildings	31,806,356	-0-	-0-	225,149	32,031,505
Equipment	7,649,782	33,439	(4,796)	-0-	7,678,425
Construction in progress	225,149	-0-	-0-	(225,149)	-0-
Total	42,481,548	33,439	(4,796)	-0-	42,510,191
Accumulated depreciation	6,356,941	2,004,226	(4,796)	-0-	8,356,371
Net capital assets	\$ 36,124,607	\$ (1,970,787)	\$ -0-	\$ -0-	\$ 34,153,820

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 982,570	\$ -0-	\$ (28,000)	\$ -0-	\$ 954,570
Land improvements	1,826,578	282,202	(278,430)	15,341	1,845,691
Buildings	39,716,616	332,726	(8,931,972)	688,986	31,806,356
Equipment	8,885,109	78,010	(1,400,907)	87,570	7,649,782
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

12. 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. Interest is variable as determined under weekly remarketing. The variable interest rate as of December 31, 2010 and 2009 was 3.25% and .95%, respectively.

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 January 13, 2012. 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, 2010. 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%.

Subsequent to December 31, 2010, the 2006 Bond was paid off and replaced with a Note Payable to IU Health pursuant to an Affiliation and Asset Purchase agreement. See Note 18.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

During 2005, the Hospital acquired a \$955,000 loan for the purchase of land. During 2009, the Hospital refinanced the loan into a \$2,000,000 note payable to bank, which was due February 27, 2010 secured by a certificate of deposit, with an interest rate of approximately 2.9%. During February 2010, the Hospital refinanced this loan commencing on March 3, 2010, maturing on March 3, 2011 with two subsequent extensions further extending the note payable to February 27, 2012.

During 2009, the Hospital borrowed on a line of credit for \$1,000,000, secured by certain accounts receivable, which was due February 27, 2010, with a variable interest rate at not to exceed 21% or less than 4.25%. During 2010, 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 April 19, 2012. There are no draws on the line of credit as of December 31, 2010.

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. The note is secured by the related property. 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%. Accumulated depreciation on capital leases was \$729,070 and \$409,207 as of December 31, 2010 and 2009, respectively.

The Hospital acquired a loan of \$360,000 to finance remaining construction costs of the Twin Lakes Medical Building. The note is secured by the related property. Monthly payments of \$3,430 are due plus interest of 6.4% through December 27, 2022. Interest rates are adjusted to the index of 5-year commercial real estate.

The Hospital acquired a vehicle loan in the amount of \$16,700 during 2010 with monthly payments of \$500, maturing in January 2013. The interest rate was recorded at 0% as a promotional offering.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

	Balance December 31, 2009	Additional borrowings	Payments	Balance December 31, 2010	Current portion
2006 Bonds	\$ 23,600,000	\$ -0-	\$ (415,000)	\$ 23,185,000	\$ 179,326
Twin Lakes MOB loan	7,326,710	-0-	(371,361)	6,955,349	396,088
Note Payable - Land	2,000,000	-0-	-0-	2,000,000	-0-
Vehicle loan	-0-	16,700	(4,000)	12,700	6,000
Twin Lakes Construction loan	358,713	-0-	(18,060)	340,653	19,617
Capital leases	1,864,332	-0-	(346,934)	1,517,398	374,345
Total	\$ 35,149,755	\$ 16,700	\$ (1,155,355)	\$ 34,011,100	\$ 975,376

	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-
Twin Lakes Construction 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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Pursuant to the aforementioned affiliation and asset purchase agreement with IU Health, which was effective July 1, 2011 (see Note 18), IU Health paid certain outstanding debt of the Hospital and the Association as of June 30, 2011, including the Series 2006 adjustable rate demand lease rental revenue bonds (\$22,970,000) and the interest rate swap derivative (\$3,430,700) net of the then existing trustee held assets (\$1,500,000) resulting in a related party note payable due to IU Health in the amount of \$24,900,700 as of June 30, 2011, with principal payments due semi-annually in ratably increasing amounts ranging from \$179,326 to \$903,063, excluding variable interest equaling the rate on IU Health's line of credit (.4% at June 30, 2011) through October 1, 2038. Accordingly, the following scheduled principal repayments and interest on long-term debt and capital lease obligations for the next five years and thereafter are reflective of this subsequent financing activity and are as follows:

Years Ending December 31,	Principal	Interest	Total
2011	\$ 975,376	\$ 850,996	\$ 1,826,372
2012	3,236,246	596,057	3,832,303
2013	1,559,560	533,865	2,093,425
2014	1,008,255	462,951	1,471,206
2015	1,015,165	461,202	1,476,367
2016-2020	6,063,755	1,497,028	7,560,783
2021-2025	5,239,300	471,207	5,710,507
2026-2030	4,944,469	290,473	5,234,942
2031-2038	11,683,786	213,247	11,897,033
	<u>\$ 35,725,912</u>	<u>\$ 5,377,027</u>	<u>\$ 41,102,939</u>

The interest rate swap interest through termination paid during the six months ended June 30, 2011 was approximately \$400,000.

13. 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 exceeding \$70,000 and aggregate individual claims in greater than \$80,000 for excess risk. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$720,704 and \$1,725,339 for the years ended December 31, 2010 and 2009, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported as reported in accrued expenses and other current liabilities on the consolidated balance sheets. Changes in balance of health claim liabilities during the past two years are as follows:

	<u>2010</u>	<u>2009</u>
Unpaid claims, beginning of year	\$ 196,642	\$ 436,000
Incurred claims and changes in estimates	720,704	1,725,339
Claim payments	<u>(780,346)</u>	<u>(1,964,697)</u>
Unpaid claims, end of year	<u>\$ 137,000</u>	<u>\$ 196,642</u>

14. 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 discretionary contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. During October of 2009, the Hospital, by way of Board Resolution, suspended the discretionary contribution of 6%, but continued to match up to 3% of employee contributions. The employer contributions to the plan for the years ended December 31, 2010 and 2009 were \$191,321 and \$689,928, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

15. 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:

	Receivables		Revenue	
	2010	2009	2010	2009
Medicare	17%	11%	46%	43%
Medicaid	8%	8%	16%	16%
Blue Cross	5%	5%	14%	15%
Other Third-Party Payors	17%	17%	17%	18%
Self Pay/Other	53%	59%	7%	8%
Total	100%	100%	100%	100%

16. 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.

17. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through June 2015. Total rental expense in 2010 and 2009 was \$1,557,859 and \$1,622,255, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 1,125,111
2012	1,100,623
2013	917,416
2014	37,962
2015	18,270
	<u>\$ 3,199,382</u>

Operating Lease Commitments

The Hospital leases office space to tenants under operating leases with terms of one to ten years. The Hospital recognized \$456,475 and \$444,680 in rental income for the years ended December 31, 2010 and 2009, respectively. The following is a schedule by years of future minimum rentals under the leases at December 31, 2010:

<u>Years Ending December 31,</u>	<u>Amount</u>
2011	\$ 291,336
2012	291,336
2013	291,336
2014	291,336
2015	291,336
Thereafter	347,612
	<u>\$ 1,804,292</u>

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 or cash flows.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

18. SUBSEQUENT EVENTS - AFFILIATION AND ASSET PURCHASE

The Hospital and the Association entered into to an affiliation and asset purchase agreement with Indiana University Health (IU Health), an Indiana nonprofit corporation, Indiana University Health Arnett (IUH Arnett), an Indiana nonprofit corporation, and Indiana University Health White Memorial Hospital (IUH White), an Indiana nonprofit corporation, effective July 1, 2011, on which, among other terms, conditions, and stipulations, IUH White purchased substantially all of the assets and assumed substantially all of the liabilities, except for specific excluded assets and liabilities, of the Hospital, the Association, and Twin Lakes.

The Foundations assets and liabilities and resulting net assets (\$157,000 at June 30, 2011) were excluded from the sale and concurrently the Foundation Board agreed to amend the governing documents to support IUH White.

The purchase price was \$955,000 payable in 10 equal annual installments to White County.

Pursuant to the aforementioned affiliation and asset purchase agreement with IU Health, which was effective July 1, 2011, IU Health paid certain outstanding debt of the Hospital and the Association as of June 30, 2011, including the Series 2006 adjustable rate demand lease rental revenue bonds (\$22,970,000) and the interest rate swap derivative (\$3,430,700) net of the then existing trustee held assets (\$1,500,000) resulting in a related party note payable due to IU Health in the amount of \$24,900,700 as of June 30, 2011, with principal payments due semi-annually in ratably increasing amounts ranging from \$179,326 to \$903,063, excluding variable interest equaling the rate on IU Health's line of credit (.4% at June 30, 2011) through October 1, 2038.

As a result of the affiliation and asset purchase, beginning July 1, 2011, substantially all assets and related liabilities of the Hospital, the Association, and Twin Lakes were effectively transferred to IUH White.