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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, 2011 to June 30, 2011. 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 June 30, 2011 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



WHITE COUNTY MEMORIAL
H O S P I T A L

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2011 AND DECEMBER 31, 2010

CPAs / ADVISORS



WHITE COUNTY MEMORIAL HOSPITAL

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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 June 30, 2011 and December 31, 2010, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the six-month period ended June 30, 2011 and for the year ended December 31, 2010. 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.

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 six-month period ended June 30, 2011 and for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
White County Memorial Hospital
Monticello, IN

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 June 30, 2011 and December 31, 2010, and its results of operations, changes in net assets and cash flows for the six-month period ended June 30, 2011 and the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 15 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 (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

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 six-month period ended June 30, 2011, and for the years ended December 31, 2010, and 2009. 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 15), 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.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011
(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

FINANCIAL HIGHLIGHTS

- Total assets decreased approximately \$2,874,000 compared to December 31, 2010.

Capital assets decreased by approximately \$820,000 due to depreciation expense less purchases of capital equipment.

Cash and cash equivalents in current assets decreased by approximately \$1,127,000.

- Total liabilities decreased approximately \$1,684,000 compared to December 31, 2010.

The Hospital received note proceeds from IU Health to pay off the 2006 revenue bonds and interest rate swap.

Approximately \$758,000 in third party settlements from prior years' cost reports were paid by the Hospital.

- Net assets decreased by approximately \$1,189,000 through June 30, 2011.

Current year interest rate swap activity resulted in a non-operating loss of approximately \$570,000, thus reducing net assets. This is in comparison to December 31, 2010 where the swap activity resulted in a non-operating loss of approximately \$397,000.

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 (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

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 (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

Balance Sheets

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

	June 30, 2011	December 31, 2010	December 31, 2009
Assets			
Current assets	\$ 10,169,497	\$ 9,422,371	\$ 8,892,731
Capital assets, net	33,333,676	34,153,820	36,124,607
Other noncurrent assets	1,299,419	4,100,034	3,951,330
Total assets	\$ 44,802,592	\$ 47,676,225	\$ 48,968,668
Liabilities			
Current liabilities	\$ 6,209,088	\$ 4,132,194	\$ 3,461,502
Other liabilities	32,135,058	35,896,838	36,462,840
Total liabilities	38,344,146	40,029,032	39,924,342
Net assets			
Unrestricted	6,047,803	3,483,318	4,005,840
Invested in capital assets, net of related debt	(2,001,485)	142,720	974,852
Restricted			
Expendable - Foundation	147,160	127,876	166,803
Expendable - capital replacement and debt service	2,046,325	3,684,055	3,725,283
Expendable - donor restricted	218,643	209,224	171,548
Total net assets	6,458,446	7,647,193	9,044,326
Total liabilities and net assets	\$ 44,802,592	\$ 47,676,225	\$ 48,968,668

Total assets decreased by approximately \$2,874,000 from December 31, 2010 to June 30, 2011 primarily due to decreases in cash and cash equivalents and funds held for capital replacement and debt service as cash used in financing activities exceeded cash provided by operations. Total liabilities decreased by approximately \$1,684,000 from December 31, 2010 to June 30, 2011 primarily due to the decrease in the swap liability as it was settled offset by an increase in debt. Net assets increased by approximately \$1,189,000 due primarily to revenue being under expenses for the year.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

Statements of Revenues and Expenses and Changes in Net Assets

The 2011, 2010, and 2009 information is summarized below:

	Six Months Ended June 30, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Operating revenues	\$ 13,364,967	\$ 26,529,436	\$ 27,739,874
Operating expenses			
Salaries and benefits	5,967,169	12,331,053	14,456,035
Professional fees	2,496,574	4,717,457	4,097,242
Medical supplies and drugs	1,535,257	2,980,067	2,778,247
Repairs and maintenance	426,885	813,705	401,703
Depreciation and amortization	1,146,173	2,010,584	2,212,047
Insurance	138,499	325,643	314,853
Other	1,436,838	2,887,854	3,366,206
Total operating expenses	13,147,395	26,066,363	27,626,333
Operating income	217,572	463,073	113,541
Nonoperating income (expense)	(1,445,546)	(1,922,526)	(907,674)
Revenues under expenses before capital contributions and special items	(1,227,974)	(1,459,453)	(794,133)
Capital contributions	39,227	62,320	28,644
Special item - impairment charge on building	-0-	-0-	(3,901,223)
Change in net assets	\$ (1,188,747)	\$ (1,397,133)	\$ (4,666,712)

Annualized operating revenues utilizing the six months ended June 30, 2011 yield approximately \$26,730,000, which is an indicated increase, compared to December 31, 2010 of approximately \$200,000. Annualized operating expenses utilizing the six months ended June 30, 2011 yield approximately \$26,295,000, which is an indicated increase, compared to December 31, 2010 of approximately \$228,000. The operating income is also relatively commensurate at approximately half of the year ended December 31, 2010. Nonoperating income (expense) for the six-month period ended June 30, 2011 decreased by approximately \$477,000 when compared to the year ended December 31, 2010 as only six months of interest expense was incurred off-set by an increase in the loss on the interest rate swap due to the related settlement.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

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?"

	<u>Six Months Ended June 30, 2011</u>	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>
Cash flows from			
Operating	\$ 372,370	\$ 4,159,175	\$ 2,115,845
Noncapital financing	313,475	476,886	27,033
Capital and related financing	(3,460,787)	(4,205,923)	(2,307,712)
Investing	3,695	7,407	(983,451)
	<u>\$ (2,771,247)</u>	<u>\$ 437,545</u>	<u>\$ (1,148,285)</u>

Total cash and cash equivalents decreased by approximately \$2,770,000 from December 31, 2010 to June 30, 2011 primarily due to the settlement of the swap liability and other capital and related financing activities using cash in excess of the cash provided by operations.

SOURCES OF REVENUE

The Hospital derives 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 six months ended June 30, 2011 and for the years ended December 31, 2010 and 2009:

<u>Payor Mix</u>	<u>Six Months Ended June 30, 2011</u>	<u>Year Ended December 31, 2010</u>	<u>Year Ended December 31, 2009</u>
Medicare	46%	46%	43%
Medicaid	15%	16%	16%
Commercial Insurance	31%	31%	33%
Self-pay / Other	8%	7%	8%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

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.

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

	Six Months Ended June 30, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Patient Days	2,752	5,109	5,586
Med/Surg Days	1,479	2,864	2,939
SCU Days	68	132	199
Pharmacy Units	202,501	397,750	346,584
Outpatient Visits	26,774	31,668	31,439
ED Visits	6,700	13,643	13,388
Laboratory Exams	54,133	105,302	110,034
X-Ray Exams	11,456	22,782	23,346
Nuclear Medicine Exams	188	325	525
CT Scans	2,916	5,646	5,569
Ultra Sound Exams	1,333	2,762	2,875
MRI's	423	851	807
Physical Therapy	6,751	13,251	11,604
Occupational Therapy	1,439	2,408	2,257
Operating Procedures	528	1,041	1,070
Oncology	938	2,046	1,604
Ambulatory Care	2,580	4,742	5,016
Durable Medical Equipment	1,615	3,345	3,835

CAPITAL IMPROVEMENTS

Highlights of capital purchases as of June 30, 2011 were additions to construction in process which included the EMR system and the flooring improvements.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

(with comparative totals for the years ended December 31, 2010 and December 31, 2009)

DEBT

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.

Other than the aforementioned, the Hospital continued to service the existing debt during the six-month period ended June 30, 2011.

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

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, INC.

CONSOLIDATED BALANCE SHEETS JUNE 30, 2011 AND DECEMBER 31, 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 1,744,016	\$ 2,870,786
Short-term investments	104,831	180,903
Current portion of assets limited as to use	2,000,000	975,376
Patient accounts receivable, net of allowance for doubtful accounts of \$2,688,743 and \$2,477,674 in 2011 and 2010, respectively	5,316,673	4,571,903
Supplies and other current assets	993,565	812,991
Current portion of pledges receivable	<u>10,412</u>	<u>10,412</u>
Total current assets	10,169,497	9,422,371
Assets limited as to use		
Funds held for capital replacement and debt service	2,046,325	3,684,055
Donor restricted funds	<u>218,643</u>	<u>209,224</u>
	2,264,968	3,893,279
Less amount for current obligations	<u>2,000,000</u>	<u>975,376</u>
Noncurrent assets limited as to use	264,968	2,917,903
Capital assets, net	33,333,676	34,153,820
Investments	1,029,286	930,907
Other assets	<u>5,165</u>	<u>251,224</u>
Total assets	<u>\$ 44,802,592</u>	<u>\$ 47,676,225</u>

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL, INC.

CONSOLIDATED BALANCE SHEETS JUNE 30, 2011 AND DECEMBER 31, 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current liabilities		
Current portion of long term debt	\$ 3,200,103	\$ 975,376
Accounts payable and accrued expenses	604,927	677,713
Accrued salaries and benefits	876,971	756,849
Estimated third-party settlements	<u>1,527,087</u>	<u>1,722,256</u>
Total current liabilities	6,209,088	4,132,194
Long term debt, net of current portion	32,135,058	33,035,724
Derivative liability	<u>-0-</u>	<u>2,861,114</u>
Total liabilities	38,344,146	40,029,032
Net assets		
Unrestricted	6,047,803	3,483,318
Invested in capital assets, net of related debt	(2,001,485)	142,720
Restricted		
Expendable - Foundation	147,160	127,876
Expendable - capital replacement and debt service	2,046,325	3,684,055
Expendable - donor restricted	<u>218,643</u>	<u>209,224</u>
Total net assets	<u>6,458,446</u>	<u>7,647,193</u>
Total liabilities and net assets	<u>\$ 44,802,592</u>	<u>\$ 47,676,225</u>

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011 AND FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
Operating revenues		
Net patient service revenue	\$ 13,064,671	\$ 25,921,622
Other	300,296	607,814
Total operating revenues	13,364,967	26,529,436
Operating expenses		
Salaries and benefits	5,967,169	12,331,053
Professional fees	2,496,574	4,717,457
Medical supplies and drugs	1,535,257	2,980,067
Repairs and maintenance	426,885	813,705
Depreciation and amortization	1,146,173	2,010,584
Insurance	138,499	325,643
Other	1,436,838	2,887,854
Total operating expenses	13,147,395	26,066,363
Operating income	217,572	463,073
Nonoperating income (expense)		
Investment income	42,168	93,479
Interest expense	(1,231,603)	(2,096,149)
Loss on interest rate swap	(569,586)	(396,742)
Other nonoperating income	313,475	476,886
Total nonoperating income (expense)	(1,445,546)	(1,922,526)
Revenues under expenses before capital contributions and special items	(1,227,974)	(1,459,453)
Capital contributions	39,227	62,320
Change in net assets	(1,188,747)	(1,397,133)
Net assets		
Beginning of year	7,647,193	9,044,326
End of year	\$ 6,458,446	\$ 7,647,193

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011 AND FOR THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
Operating activities		
Cash received from patients and third party payors	\$ 12,124,732	\$ 27,249,214
Cash paid to employees for salaries and benefits	(5,847,047)	(12,373,289)
Cash paid to vendors for goods and services	(6,205,611)	(11,382,517)
Other operating receipts, net	300,296	665,767
Net cash flows from operating activities	372,370	4,159,175
Noncapital financing activities		
Other nonoperating income	313,475	476,886
Capital and related financing activities		
Capital contributions	39,227	62,320
Proceeds from debt instruments	-0-	16,700
Acquisition and construction of capital assets	(161,772)	(33,439)
Interest paid on long-term debt	(1,231,603)	(2,096,149)
Borrowings (payments) on line of credit, net	-0-	(1,000,000)
Borrowings on IU Health note payable	24,900,700	-0-
Payments for settlement of swap	(3,430,700)	-0-
Principal payments on long-term debt	(23,576,639)	(1,155,355)
Net cash flows from capital and related financing activities	(3,460,787)	(4,205,923)
Investing activities		
Investment income	42,168	93,479
Change in assets whose use is limited, net	(16,166)	(36,264)
Change in investments, net	(22,307)	(49,808)
Net cash flows from investing activities	3,695	7,407
Net change in cash and cash equivalents	(2,771,247)	437,545
Cash and cash equivalents		
Beginning of year	4,734,159	4,296,614
End of year	\$ 1,962,912	\$ 4,734,159

See accompanying notes to consolidated financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011 AND FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 217,572	\$ 463,073
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	1,146,173	2,010,584
Provision for bad debt	2,039,151	3,251,399
Changes in assets and liabilities		
Patient accounts receivable	(2,783,921)	(3,906,478)
Estimated third-party settlements	(195,169)	1,982,671
Supplies and other current assets	(180,574)	166,068
Pledges receivable, net	-0-	57,953
Other assets	81,802	9,558
Accounts payable and accrued expenses	(72,786)	166,583
Accrued salaries and benefits	120,122	(42,236)
Net cash flows from operating activities	<u>\$ 372,370</u>	<u>\$ 4,159,175</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 1,744,016	\$ 2,870,786
In assets limited as to use	218,896	1,863,373
Total cash and cash equivalents	<u>\$ 1,962,912</u>	<u>\$ 4,734,159</u>
Non cash investing, capital and related financing activities		
Unrealized gain (loss) on interest rate swap	\$ -0-	\$ (396,742)

See accompanying notes to consolidated financial statements

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

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 period ending June 30, 2011 and for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

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 June 30, 2011 and 2010 were \$157,160 and \$137,876, respectively. The Foundation's change in net assets for 2011 and 2010 was \$19,284 and \$(75,639), respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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 June 30, 2011 and 2010 were \$7,769,652 and \$8,014,090, respectively. The MOB's net assets as of June 30, 2011 and 2010 were (\$2,088,889) and (\$1,773,656), respectively. The MOB's change in net assets for 2011 and 2010 was (\$315,241) and (\$719,955) respectively.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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. 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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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

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 June 30, 2011 and 2010 were approximately \$-0- and \$246,924, respectively. Issue costs are amortized over the term of the bonds. The remaining bond issue costs were written off during the six months ended June 30, 2011 as the underlying bonds were refinanced.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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

Of the Hospital's total expenses reported (approximately \$13,147,000 and \$26,066,000 during the six-month period ended June 30, 2011 and for the year ended December 31, 2010, respectively), an estimated \$333,500 and \$406,355 arose from providing services to charity patients during the six-month period ended June 30, 2011 and for the year ended December 31, 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service 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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

Advertising

The Hospital expenses advertising costs as they are incurred. Advertising expenses for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 were \$38,306 and \$92,159, respectively.

Reclassifications

Certain amounts from 2010 have been reclassified to conform to the 2011 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 .

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 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 JUNE 30, 2011 AND DECEMBER 31, 2010

Patient service revenue consists of the following:

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
Inpatient services	\$ 5,285,099	\$ 9,511,678
Outpatient services	22,716,313	42,630,202
Gross charges	28,001,412	52,141,880
Charity care	(710,345)	(817,109)
Gross patient service revenue	27,291,067	51,324,771
Contractual allowances	(12,187,245)	(22,151,750)
Provision for bad debt	(2,039,151)	(3,251,399)
Deductions from revenue	(14,226,396)	(25,403,149)
Net patient service revenue	\$ 13,064,671	\$ 25,921,622

3. ASSETS LIMITED AS TO USE

A summary of assets limited as to use is as follows:

	June 30, 2011	December 31, 2010
Funds held for capital replacement and debt service		
Cash and cash equivalents	\$ 253	\$ 1,654,149
Certificates of deposit	2,046,072	2,029,906
Donor restricted funds		
Cash and cash equivalents	65,898	70,735
Funds held by others - cash and cash equivalents	152,745	138,489
Total assets limited as to use	\$ 2,264,968	\$ 3,893,279

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

4. 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. 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:

June 30, 2011					
	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and cash equivalents	\$ 42,885	\$ 42,885	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	111,032	55,931	2,288	-0-	52,813
Certificates of Deposit	3,026,272	2,150,903	825,204	50,165	-0-
	\$ 3,180,189	\$ 2,249,719	\$ 827,492	\$ 50,165	\$ 52,813

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-
	\$ 3,141,716	\$ 2,242,729	\$ 746,707	\$ 80,361	\$ 71,919

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 JUNE 30, 2011 AND DECEMBER 31, 2010

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:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Carrying amount		
Deposits	\$ 1,962,912	\$ 4,734,159
Investments	3,180,189	3,141,716
	<u>\$ 5,143,101</u>	<u>\$ 7,875,875</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 1,744,016	\$ 2,870,786
Short-term investments	104,831	180,903
Current portion of assets limited as to use	2,000,000	975,376
Noncurrent assets limited as to use	264,968	2,917,903
Investments	1,029,286	930,907
	<u>\$ 5,143,101</u>	<u>\$ 7,875,875</u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

5. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAPS

Contracts

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

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 related to the Series 2006 bond had a notional amount totaling \$23,185,000 at December 31, 2010. The Hospital is the counterparty of the swap agreement. The term and fair value of the outstanding swap as of December 31, 2010 was 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%	\$ -	10/1/2021

The swap agreement related to the Series 2006 bond had a notional amount totaling -0- at June 30, 2011 as the interest rate swap was settled at June 30, 2011. See Note 15.

As of December 31, 2010, the negative fair value of the agreement could have been countered by reductions in total interest payments under the swap agreement should the variable rate on the 2006 Series bonds have increased. The variable rate on the swap was determined by USD-BMA Municipal Swap Index and was reset monthly.

The counterparty carried 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 previous potential for credit risk, the fair value of the swap was collateralized based on a schedule of the counterparty guarantor credit ratings classifications and exposure thresholds as was provided in the agreements.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

Basis Risk

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

Termination Risk

The Hospital or other counterparty could have elected 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.

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 remained the same for the term of the bonds, as were disclosed in the Long Term Debt note, and as rates vary, variable-rate bond interest payments and net swap payments could have varied.

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.

6. FAIR VALUE MEASUREMENTS

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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

Assets and liabilities measured at fair value on a recurring basis are as follows:

		June 30, 2011			
		Total	Level 1	Level 2	Level 3
Assets					
Investments & AWUIL					
Fixed Income Securities	\$	111,032	\$ -0-	\$ 111,032	\$ -0-
Certificates of deposit and					
Cash and cash equivalents *		3,069,157			
	\$	3,180,189			
		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-

*Certificates of deposit are reported at contract value

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

The carrying value of capital lease obligations and other debt approximate fair value based on borrowing rates of similar organizations with similar instruments considering commensurate nature and risk.

7. ACCOUNTS RECEIVABLE AND PAYABLE

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

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 7,574,045	\$ 6,927,329
Receivable from Medicare	1,646,690	1,333,784
Receivable from Medicaid	749,090	368,913
Total patient accounts receivable	<u>9,969,825</u>	<u>8,630,026</u>
Less allowance for contractual agreements and uncollectible amounts	<u>4,653,152</u>	<u>4,058,123</u>
Patient accounts receivable, net	<u><u>\$ 5,316,673</u></u>	<u><u>\$ 4,571,903</u></u>
<u>Accounts payable and accrued expenses</u>		
Payable to suppliers and other	\$ 604,927	\$ 677,713
Payable to employees (including payroll taxes and benefits)	876,971	756,849
Total accounts payable and accrued expenses	<u><u>\$ 1,481,898</u></u>	<u><u>\$ 1,434,562</u></u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

8. CAPITAL ASSETS

A summary of capital assets is as follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Land	\$ 954,570	\$ -0-	\$ -0-	\$ -0-	\$ 954,570
Land improvements	1,845,689	-0-	-0-	-0-	1,845,689
Buildings	32,031,506	-0-	(2,089)	-0-	32,029,417
Equipment	7,678,425	-0-	(286,934)	-0-	7,391,491
Construction in progress	-0-	161,772	-0-	-0-	161,772
Total	42,510,190	161,772	(289,023)	-0-	42,382,939
Accumulated depreciation	8,356,370	981,916	(289,023)	-0-	9,049,263
Net capital assets	\$ 34,153,820	\$ (820,144)	\$ -0-	\$ -0-	\$ 33,333,676

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Land	\$ 954,570	\$ -0-	\$ -0-	\$ -0-	\$ 954,570
Land improvements	1,845,689	-0-	-0-	-0-	1,845,689
Buildings	31,806,357	-0-	-0-	225,149	32,031,506
Equipment	7,649,782	33,439	(4,796)	-0-	7,678,425
Construction in progress	225,149	-0-	-0-	(225,149)	-0-
Total	42,481,547	33,439	(4,796)	-0-	42,510,190
Accumulated depreciation	6,356,940	2,004,226	(4,796)	-0-	8,356,370
Net capital assets	\$ 36,124,607	\$ (1,970,787)	\$ -0-	\$ -0-	\$ 34,153,820

9. 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 were due in annual installments ranging from \$400,000 to \$1,500,000 through October 2038. Interest was variable as determined under weekly remarketing. The variable interest rate as of June 30, 2011 and December 31, 2010 and 2009 approximately 1%.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

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 related party note payable due to IU Health in the amount of \$24,900,700, 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.

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 were no outstanding draws on the line of credit as of June 30, 2011 and 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 \$889,132 and \$729,070 as of June 30, 2011 and 2010, 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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

A summary of long-term debt at June 30 is as follows:

	Balance December 31, 2010	Additional borrowings	Payments	Balance June 30, 2011	Current portion
Long Term Note	\$ -0-	\$ 24,900,700	\$ -0-	\$ 24,900,700	\$ 367,841
2006 Bonds	23,185,000	-0-	(23,185,000)	-0-	-0-
Twin Lakes MOB loan	6,955,349	-0-	(198,795)	6,756,554	417,139
Note Payable - Land	2,000,000	-0-	-0-	2,000,000	2,000,000
Vehicle loan	12,700	-0-	(3,000)	9,700	6,000
Twin Lakes Construction loan	340,653	-0-	(9,650)	331,003	20,263
Capital leases	1,517,398	-0-	(180,194)	1,337,204	388,860
Total	\$ 34,011,100	\$ 24,900,700	\$(23,576,639)	\$ 35,335,161	\$ 3,200,103

	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
	\$ 35,149,755	\$ 16,700	\$(1,155,355)	\$ 34,011,100	\$ 975,376

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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

December 31,	Principal	Interest	Total
2011 (6 months)	596,415	370,357	\$ 966,772
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	5,234,941
2031-2038	11,671,997	213,247	11,885,244
	\$ 35,335,161	\$ 4,896,388	\$ 40,231,549

10. 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 \$386,692 and \$720,704 for the years ended June 30, 2011 and 2010, respectively.

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:

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
Unpaid claims, beginning of year	\$ 137,000	\$ 196,642
Incurred claims and changes in estimates	386,692	720,704
Claim payments	(392,692)	(780,346)
Unpaid claims, end of year	\$ 131,000	\$ 137,000

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

11. 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. The Hospital matched contributions at 3% of employee contributions, which amounted to \$98,203 for the six months ended June 30, 2011, and \$192,554 for the year ended December 31, 2010.

12. 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 is as follows:

	Receivables		Revenue	
	June 30, 2011	December 31, 2010	Six Months Ended June 30, 2011	Year Ended December 31, 2010
Medicare	17%	17%	46%	46%
Medicaid	8%	8%	15%	16%
Blue Cross	8%	5%	14%	14%
Other Third-Party Payors	15%	17%	17%	17%
Self Pay/Other	52%	53%	8%	7%
Total	100%	100%	100%	100%

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

13. 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.

14. 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 for the six months ended June 30, 2011 and for the year ended December 31, 2010 was \$773,854 and \$1,557,859, respectively. The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year.

Year Ending December 31,	Amount
2011 (6 months)	\$ 562,556
2012	1,100,623
2013	917,416
2014	37,962
2015	18,270
	<u>\$ 2,636,827</u>

Operating Lease Commitments

The Hospital leases office space to tenants under operating leases with terms of one to ten years. The Hospital recognized \$239,805 and \$456,475 in rental income for the six-month period ended June 30, 2011 and for the year ended December 31, 2010, respectively. The following is a schedule by years of future minimum rentals under the leases at June 30, 2011:

Years Ending December 31,	Amount
2011 (6 months)	\$ 145,668
2012	291,336
2013	291,336
2014	291,336
2015	291,336
Thereafter	347,612
	<u>\$ 1,658,624</u>

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011 AND DECEMBER 31, 2010

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.

15. SUBSEQUENT EVENT - 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 effectuation of aforementioned affiliation and asset purchase agreement, effective July 1, 2011 substantially all assets and related liabilities of the Hospital, the Association, and Twin Lakes were transferred to IUH White.