

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2007 AND 2006

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 combined balance sheets of White County Memorial Hospital (the Hospital), a component unit of White County, as of December 31, 2007 and 2006, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above, present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006, and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Blue & Co., LLC

April 15, 2008

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

The Management's discussion and analysis of White County Memorial Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2007 and 2006. Please read it in conjunction with the Hospital's audited financial statements. This discussion and analysis include the combined statements including the Hospital, Twin Lakes Medical Office Building, LLC, and the White County Memorial Hospital Foundation, component units of the Hospital.

FINANCIAL HIGHLIGHTS

The combined statements net assets increased by \$2,030,262, which included operating income of \$343,822 in 2007, a net non-operating expense position of \$201,961, a transfer from the county of \$716,000 and capital contributions of \$1,115,452.

CAPITAL IMPROVEMENTS

The Governing Board of Trustees for White County Memorial Hospital began actual construction of a replacement Hospital in the fall of 2006, due to being land locked in a non-visible location, with no room for expansion of facilities and/or services. With this new facility under construction, it has been the philosophy of the Governing Board and Administration to create a capital budget to repair the aging facility as needed, to purchase and/or lease state of the art patient care equipment, and to implement and enhance information systems that can be relocated.

In addition, it has been the philosophy of the Governing Board and Administration to finance the capital budget through the proceeds of the operating budget, as well as set aside \$75,000 per month to assist with the 1st payment of the Bond for the new construction.

With this direction, the Hospital made the following significant capital acquisitions and improvements in 2007:

Patient Care Equipment

Dell Optiplex Computers (qty 10)	\$	9,537
Fire Ext. Training System		5,347
Gateway Astaro		11,770
OB-GYN Stretcher		5,103
Orenstein Arthroscopy Instruments		9,293
Orenstein Arthroscopy QH466008		2,760
Server		62,321
Server IBM X3400		21,368
	\$	<u>127,499</u>

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Additional Notes to Capital

Additional Notes to Capital: The Hospital also leases certain equipment including the PYXIS, MRI unit and CT Scans under operating lease agreements.

ACTUAL TO BUDGETED PERFORMANCE

As specified in the Bylaws, the Board of Trustees is required to approve an annual budget. The budget remains in effect the entire year and variances to budget are presented to the Board via monthly interim financial statements. The 2007 information for the Hospital including Twin Lakes Medical Office Building, LLC and the Foundation is summarized below:

	<u>2007</u>	<u>2007 Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Total operating revenues	\$ 23,693,072	\$ 23,784,910	\$ (91,838)	-0.4%
Operating expenses				
Salaries and benefits	13,420,767	12,205,471	1,215,296	10.0%
Professional fees	3,261,739	3,122,267	139,472	4.5%
Medical supplies and drugs	3,120,286	2,878,529	241,757	8.4%
Repairs and maintenance	574,635	579,507	(4,872)	-0.8%
Depreciation and amortization	576,317	653,766	(77,449)	-11.8%
Insurance	280,911	193,955	86,956	44.8%
Other	2,114,595	4,056,754	(1,942,159)	-47.9%
Total operating expenses	<u>23,349,250</u>	<u>23,690,249</u>	<u>(340,999)</u>	<u>-1.4%</u>
Operating income	343,822	94,661	249,161	263.2%
Nonoperating income, transfers from the county and capital contributions	<u>1,629,491</u>	<u>375,198</u>	<u>1,254,293</u>	<u>334.3%</u>
Change in net assets	<u>\$ 1,973,313</u>	<u>\$ 469,859</u>	<u>\$ 1,503,454</u>	<u>320.0%</u>

In comparing actual versus budgeted 2007 results, the following variances occurred:

- Net operating income increased \$249,161 from budgeted figures for 2007.
- We received a bioterrorism grant for \$37,000 and a larger than expected rebate from Constra our purchasing group for \$26,000 also, and over the counter Pharmacy sales were up \$18,000.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

- The following patient care services statistics help further explain the revenue volume decrease.

	2007	2006	% Change
Patient Days	5,403	5,995	-9.9%
Med/Surg Days	2,818	3,465	-18.7%
SCU Days	163	279	-41.6%
Pharmacy Days	427,638	469,577	-8.9%
Laboratory Exams	96,694	97,402	-0.7%
X-Ray Exams	18,847	20,581	-8.4%
Nuclear Medicine Exams	364	362	0.6%
CT	3,221	3,452	-6.7%
Ultra Sound Exams	2,180	2,323	-6.2%
MRI's	771	799	-3.5%
Physical Therapy	11,274	11,070	1.8%
Occupational Therapy	1,963	2,673	-26.6%
Operating Procedures	1,239	1,380	-10.2%
Oncology	1,723	1,805	-4.5%
Ambulatory Care	4,122	4,242	-2.8%
Durable Medical Equipment	4,482	4,149	8.0%

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

Salaries, Wages and Benefits

Salaries, Wages and Benefits costs were \$1,215,296 over budget due to an increase in paid FTE's from 213 in 2006 to 219 in 2007. This change included bringing a physician on staff. This increase in Salaries and Wages creates an increase in other salary benefits such as FICA and pension. The health insurance was over budget by approximately \$520,000.

Professional Fees

Professional fees were \$139,472 or 4.5% over budget due to increases in physician on-call in OB and OR. Also, because of the additional cost for services provided by Arnett Clinic in Radiology.

Medical Supplies and Drugs

Medical supplies and drugs were \$241,757 over budget due to Pharmacy increases of \$147,312 related to the large cost of Chemo drugs and the additional amount of patients treated.

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Depreciation and Amortization

The depreciation expense for major moveables was a great deal less than projected.

Insurance

Insurance costs were \$86,956 over budget due to the additional expense associated with the malpractice insurance for the physician that joined our staff and the expense of insuring two locations.

Other Expenses

We were under budget for other expense by \$1,942,159.

Change in net assets

There was an increase in net assets of \$1,973,313 from 2006.

REVENUE AND CASH ANALYSIS

Sources of Revenue

During 2007, 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, 2007 and 2006, respectively.

<u>Payor Mix</u>	<u>2007</u>	<u>2006</u>
Medicare	47%	49%
Medicaid	12%	12%
Commercial Insurance	35%	34%
Self-pay / Other	6%	5%
Total	<u>100%</u>	<u>100%</u>

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

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Sources of Cash

Cash used in operating activities was \$2,354,327, cash created by noncapital financing activities was \$1,235,098, cash used in capital and related financing activities was \$12,092,270, and cash created from investing activities was \$17,445,367. This created a net change in cash and cash equivalents of \$4,233,868, a decrease from a net increase of \$7,561,287 in 2006. The changes in cash are mainly due to the acquisition of new financing and construction related to the new hospital.

BALANCE SHEET ANALYSIS

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Assets			
Current assets	\$ 14,132,559	\$ 15,786,332	(1,653,773)
Capital assets, net	24,665,540	8,534,651	16,130,889
Other noncurrent assets	14,281,707	23,809,946	(9,528,239)
Total assets	<u>\$ 53,079,806</u>	<u>\$ 48,130,929</u>	<u>4,948,877</u>
Liabilities			
Current liabilities	\$ 4,369,155	\$ 7,443,981	(3,074,826)
Other liabilities	33,242,677	27,192,287	6,050,390
Total liabilities	<u>37,611,832</u>	<u>34,636,268</u>	<u>2,975,564</u>
Net Assets			
Unrestricted	8,797,239	7,836,600	960,639
Unrestricted - funded depreciation	1,991,655	1,091,655	900,000
Invested in capital assets, net of related debt	937,134	2,434,729	(1,497,595)
Restricted			
Expendable - capital acquisitions	1,144,817	16,398	1,128,419
Expendable - debt service and capital expenditure	2,228,188	1,760,929	467,259
Expendable - donor restricted	368,941	354,350	14,591
Total Net Assets	<u>15,467,974</u>	<u>13,494,661</u>	<u>1,973,313</u>
Total Liabilities & Net Assets	<u>\$ 53,079,806</u>	<u>\$ 48,130,929</u>	<u>4,948,877</u>

WHITE COUNTY MEMORIAL HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Debt

As disclosed in the notes to the financial statements, Note 8, the Hospital has obtained additional financing in 2007 for continued construction of the new hospital and medical office building.

Liabilities and Net Assets

The changes in the Balance Sheet are due to the large increase in the Construction in Progress account in the fixed asset area and the change in the Third Party Payor reserve account.

COMMUNITY BENEFIT

White County Memorial Hospital is a Governmental Not-For-Profit County Hospital located in Monticello, Indiana. As a county Hospital, the governing board of directors and the administrative team believe there is a corporate responsibility to the community members that we serve, to provide special programs, education and charitable care without the concern for reimbursement.

It is important to discuss the Hospital's financial partnership with the community we serve. The community benefit was \$11,378,621 in 2007 and is broken into the following five sub categories.

Medicare Shortfall: The Medicare shortfall is the difference between the Hospital's gross charges for a service or procedure and the amount of cash received from the Center for Medicare and Medicaid Services. In 2007 the Medicare shortfall for White County Memorial Hospital was \$7,681,296.

Medicaid Shortfall: The Medicaid shortfall is the difference between the Hospital's gross charges for a service or procedure and the amount of cash received from Medicaid. In 2007 the Medicaid shortfall for White County Memorial Hospital was \$3,025,175.

Charity: Excluded from net patient service revenue are charges for patient services waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Management's commitment to provide emergency care for all patients without regard to their ability to pay contributed to this component of the community's benefit. In 2007, White County Memorial Hospital provided \$464,322 in charity care.

Education: In 2007, White County Memorial Hospital spent \$116,604 on education programs the residents of White County and the Hospital staff. This does not include conferences and seminars. These education programs included: ACLS, Breast Feeding/Pregnancy counseling, Car Seat Education/Permanent Fitting Station, CPR/1st

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

Aid community and staff, Dietitian O/P education, Emergency Nurse Pedi Course, FEMA Emergency management course, fire & safety education, health occupation students, neonatal resuscitation program, organ tissue eye donation education, poison control/prevention, prenatal classes, safe sitter course, Shaken Infant Syndrome education for all 4 schools, smoking cessation, STD education TLHS & NWHS, and tuition assistance in-house.

Special Programs: In 2007, White County Memorial Hospital spent \$91,225 on special programs for the residents of White County. These special programs include but are not limited to blood drives, cholesterol screening, domestic violence task force, flu shots, etc.

The Community Benefit total for 2007 was \$11,378,621.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hospital's Chief Financial Officer at 1101 O'Connor Blvd. Monticello, IN 47960.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,967,290	\$ 6,253,788
Short-term investments	1,229,616	379,916
Current portion of assets limited as to use	2,788,624	4,135,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,760,000 and \$1,050,000 in 2007 and 2006, respectively	3,707,655	4,007,626
Supplies and other current assets	1,341,027	1,010,002
Estimated third-party settlements	1,098,347	-0-
Total current assets	<u>14,132,559</u>	<u>15,786,332</u>
Assets limited as to use		
Board designated funds	1,991,655	1,091,655
Trustee held funds	12,954,782	25,296,007
Donor restricted funds	368,941	354,350
	<u>15,315,378</u>	<u>26,742,012</u>
Less amount for current obligations	<u>2,788,624</u>	<u>4,135,000</u>
Noncurrent assets limited as to use	12,526,754	22,607,012
Capital assets, net	24,665,540	8,534,651
Investments	722,525	707,599
Other assets	<u>1,032,428</u>	<u>495,335</u>
Total assets	<u>\$ 53,079,806</u>	<u>\$ 48,130,929</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current liabilities		
Current portion of long term debt	\$ 2,788,624	\$ 4,135,000
Line of credit	-	954,627
Accounts payable and accrued expenses	222,252	539,676
Accrued salaries and benefits	1,358,279	1,067,571
Estimated third-party settlements	-	497,107
Other current liabilities	-	250,000
Total current liabilities	<u>4,369,155</u>	<u>7,443,981</u>
Long term debt, net of current portion	31,666,376	25,500,000
Other liabilities	<u>1,576,301</u>	<u>1,692,287</u>
Total liabilities	37,611,832	34,636,268
Net assets		
Unrestricted	8,797,239	7,836,600
Unrestricted - funded depreciation	1,991,655	1,091,655
Invested in capital assets, net of related debt	937,134	2,434,729
Restricted		
Expendable - capital acquisitions	1,144,817	16,398
Expendable - debt service	2,228,188	1,760,929
Expendable - donor restricted	368,941	354,350
Total net assets	<u>15,467,974</u>	<u>13,494,661</u>
Total liabilities and net assets	<u>\$ 53,079,806</u>	<u>\$ 48,130,929</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues		
Net patient service revenue	\$ 23,205,823	\$ 22,330,567
Other	487,249	484,673
Total operating revenues	<u>23,693,072</u>	<u>22,815,240</u>
Operating expenses		
Salaries and benefits	13,420,767	12,076,313
Professional fees	3,261,739	3,136,205
Medical supplies and drugs	3,120,286	3,062,150
Repairs and maintenance	574,635	551,982
Depreciation and amortization	576,317	494,082
Insurance	280,911	239,913
Other	2,114,595	2,048,962
Total operating expenses	<u>23,349,250</u>	<u>21,609,607</u>
Operating income	343,822	1,205,633
Nonoperating income (expense)		
Investment income	366,302	337,239
Interest expense	(27,637)	(208,671)
Unrealized loss on interest rate swap	(600,014)	(976,287)
Other nonoperating income (expense)	59,388	162,488
Total nonoperating income (expense)	<u>(201,961)</u>	<u>(685,231)</u>
Capital contributions	1,115,452	-0-
Transfers from the county	<u>716,000</u>	<u>1,138,000</u>
Change in net assets	1,973,313	1,658,402
Net assets		
Beginning of year	13,494,661	11,836,259
End of year	<u>\$ 15,467,974</u>	<u>\$ 13,494,661</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating activities		
Cash received from patients and third party payors	\$ 21,910,340	\$ 22,818,296
Cash paid to employees for salaries and benefits	(13,130,059)	(11,942,257)
Cash paid to vendors for goods and services	(11,565,207)	(8,872,466)
Other operating receipts, net	487,548	484,673
Net cash flows from operating activities	<u>(2,297,378)</u>	<u>2,488,246</u>
Noncapital financing activities		
Nonoperating income	59,388	162,488
Capital and related financing activities		
Transfers from the county	716,000	1,138,000
Capital contributions	1,115,452	-0-
Acquisition and construction of capital assets	(16,646,006)	(2,304,467)
Interest expense on long-term debt	(27,637)	(208,671)
Proceeds from the line of credit	-0-	954,627
Proceeds from issuance of long term debt	8,000,000	25,500,000
Principal payments on long-term debt and line of credit	<u>(4,134,627)</u>	<u>(385,000)</u>
Net cash flows from capital and related financing activities	(10,976,818)	24,694,489
Investing activities		
Investment income	366,302	337,239
Change in assets whose use is limited, net	17,947,000	(19,479,650)
Change in investments, net	<u>(864,626)</u>	<u>(641,525)</u>
Net cash flows from investing activities	<u>17,448,676</u>	<u>(19,783,936)</u>
Net change in cash and cash equivalents	4,233,868	7,561,287
Cash and cash equivalents		
Beginning of year	12,923,800	5,362,513
End of year	<u>\$ 17,157,668</u>	<u>\$ 12,923,800</u>

See accompanying notes to combined financial statements.

WHITE COUNTY MEMORIAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 343,822	\$ 1,205,633
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	576,317	494,082
Provision for bad debt	2,210,312	1,951,323
Loss on disposal of property and equipment	299	-0-
Changes in assets and liabilities		
Patient accounts receivable	(1,910,341)	(2,283,793)
Estimated third-party settlements	(1,595,454)	820,199
Supplies and other current assets	(331,025)	(435,160)
Other assets	(598,592)	(400,816)
Accounts payable and accrued expenses	(317,424)	126,722
Accrued salaries and benefits	290,708	134,056
Other current liabilities	(250,000)	250,000
Other liabilities	(716,000)	626,000
Net cash flows from operating activities	<u>\$ (2,297,378)</u>	<u>\$ 2,488,246</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents		
In current assets	\$ 3,967,290	\$ 6,253,788
In assets limited as to use	13,190,378	6,670,012
Total cash and cash equivalents	<u>\$ 17,157,668</u>	<u>\$ 12,923,800</u>
Supplemental cash flows information		
Cash paid for interest net of amounts capitalized of \$1,772,000 in 2007 and \$173,000 in 2006	\$ 28,000	\$ 318,000
Non cash investing and financing activities		
Unrealized loss on interest rate swap	\$ 600,014	\$ 976,287

See accompanying notes to combined financial statements

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

On January 18, 1983, the Board of County Commissioners of White County, upon written request of the Hospital Board of Trustees created the White County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing Hospital facilities for the Hospital.

Blended Component Units

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

The Foundation's total assets and net assets as of December 31, 2007 and 2006 were \$1,282,908 and \$260,552, respectively. The Foundation's change in net assets for 2007 and 2006 was \$1,022,356 and \$14,496 respectively.

Twin Lakes Medical Office Building, LLC (MOB) is a blended component unit of the Hospital. As of December 31, 2006, the Hospital owned 51% of the MOB. During the 2007, the Hospital purchased the remaining interest in 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 and net assets as of December 31, 2007 were \$8,222,940 and \$954,327, respectively. During 2007, the MOB received proceeds from a loan in the amount of \$8,000,000 for construction. The MOB's change in net assets for 2007 and 2006 was \$82,233 and \$(300), respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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 uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, 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.

Cash and Cash Equivalents

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

Combined Statements of Cash Flows

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

Investments in Debt and Equity Securities

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Assets Limited as To Use

Board Designated

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

Funds Held by Trustee

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

Donor Restricted Funds

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

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

Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$5,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred. All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest cost capitalized in 2007 and 2006 was \$1,772,000 and \$173,000, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were approximately \$275,000 and \$365,000, respectively. Issue costs are amortized utilizing the straight-line method.

Grants and Contributions

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

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Transfers from the County

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

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures for debt service. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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.

Reclassifications

Certain amounts from 2006 have been reclassified to conform to the 2007 presentation.

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 2005. 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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Revenue from the Medicare and Medicaid programs accounted for approximately 49 percent and 4 percent, respectively, of the Hospital's net patient revenue for the year ended 2007, and 49 percent and 2 percent, respectively, of the Hospital's net patient revenue, for the year ended 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital participates in the Disproportionate Share Hospital program. Subject to certain qualification criteria, the Hospital is entitled to participate in the program annually. The Hospital recognized reimbursement from the program within net patient revenue of approximately \$1,095,859 and \$575,426 during the years ended December 31, 2007 and 2006, respectively. This program is a Federal program administered by the state. There is currently a one year moratorium on a change in the regulation related to the eligibility to participate in the program, which if left unchanged would expire in May 2008. The ultimate outcome and potential impact of the change in the regulation is unknown.

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

Patient service revenue for 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Inpatient services	\$ 8,969,569	\$ 9,446,790
Outpatient services	<u>29,867,596</u>	<u>28,779,357</u>
Gross patient service revenue	38,837,165	38,226,147
Contractual allowances	12,956,708	13,367,950
Provision for bad debt	2,210,312	1,951,323
Charity care	<u>464,322</u>	<u>576,307</u>
Deductions from revenue	<u>15,631,342</u>	<u>15,895,580</u>
Net patient service revenue	<u>\$ 23,205,823</u>	<u>\$ 22,330,567</u>

3. CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy were \$464,322 and \$576,307 for 2007 and 2006, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

4. ASSETS LIMITED AS TO USE

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

	<u>2007</u>	<u>2006</u>
Board designated funds		
Funded depreciation and other		
Cash and cash equivalents	\$ 1,991,655	\$ 1,091,655
Funds held by Trustee		
Cash and cash equivalents	10,829,782	5,224,007
Certificates of deposit	2,125,000	20,072,000
Donor restricted funds		
Cash and cash equivalents	215,331	212,347
Funds held by others - cash and cash equivalents	<u>153,610</u>	<u>142,003</u>
Total assets limited as to use	<u>\$ 15,315,378</u>	<u>\$ 26,742,012</u>

5. DEPOSITS AND INVESTMENTS

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

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, 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, 2007

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

December 31, 2006

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual funds	\$ 4,701	\$ 4,701	\$ -0-	\$ -0-	\$ -0-
Fixed income obligations	661,563	136,680	368,830	59,011	97,042
Certificates of Deposit	20,493,251	19,513,535	979,716	-0-	-0-
	<u>\$ 21,159,515</u>	<u>\$ 19,654,916</u>	<u>\$ 1,348,546</u>	<u>\$ 59,011</u>	<u>\$ 97,042</u>

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

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

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Deposits and investments consist of the following as of December 31, 2007 and 2006:

	2007	2006
Carrying amount		
Deposits	\$ 17,157,668	\$ 12,923,800
Investments	4,077,141	21,159,515
	\$ 21,234,809	\$ 34,083,315
 Included in the balance sheet captions		
Cash and cash equivalents	\$ 3,967,290	\$ 6,253,788
Short-term investments	1,229,616	379,916
Current portion of assets limited as to use	2,788,624	4,135,000
Board designated funds	1,991,655	1,091,655
Trustee held funds	10,166,158	21,161,007
Donor restricted funds	368,941	354,350
Investments	722,525	707,599
	\$ 21,234,809	\$ 34,083,315

6. 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.

	2007	2006
<u>Patient accounts receivable</u>		
Receivable from patients and their insurance carriers	\$ 5,519,895	\$ 4,176,037
Receivable from Medicare	1,091,804	2,204,648
Receivable from Medicaid	579,735	504,294
Total patient accounts receivable	7,191,434	6,884,979
Less allowance for contractual agreements and uncollectible amounts	3,483,779	2,877,353
	\$ 3,707,655	\$ 4,007,626
 <u>Accounts payable and accrued expenses</u>		
Payable to suppliers and other	\$ 222,252	\$ 539,676
Payable to employees (including payroll taxes and benefits)	1,358,279	1,067,571
Total accounts payable and accrued expenses	\$ 1,580,531	\$ 1,607,247

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. CAPITAL ASSETS

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

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
Land	\$ 982,570	\$ -0-	\$ -0-	\$ -0-	\$ 982,570
Land improvements	281,592	-0-	-0-	362,580	644,172
Buildings	9,773,154	-0-	-0-	3,941,575	13,714,729
Equipment	6,242,510	127,501	(196,160)	71,092	6,244,943
Construction in progress	2,190,470	16,518,505	-0-	(4,375,247)	14,333,728
Total	19,470,296	16,646,006	(196,160)	-0-	35,920,142
Accumulated depreciation	10,935,645	514,818	(195,861)	-0-	11,254,602
Net capital assets	\$ 8,534,651	\$16,131,188	\$ (299)	\$ -0-	\$ 24,665,540

	Balance December 31, 2005	Additions	Retirements	Transfers	Balance December 31, 2006
Land	\$ 982,570	\$ -0-	\$ -0-	\$ -0-	\$ 982,570
Land improvements	281,592	-0-	-0-	-0-	281,592
Buildings	9,773,154	-0-	-0-	-0-	9,773,154
Equipment	6,217,419	114,102	(89,011)	-0-	6,242,510
Construction in progress	-0-	2,190,470	-0-	-0-	2,190,470
Total	17,254,735	2,304,572	(89,011)	-0-	19,470,296
Accumulated depreciation	10,530,469	486,895	(81,719)	-0-	10,935,645
Net capital assets	\$ 6,724,266	\$ 1,817,677	\$ (7,292)	\$ -0-	\$ 8,534,651

8. 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 plus interest ranging from 3.7% to 5.5% through October 1, 2038. During 2006, the Hospital entered into an interest rate swap agreement (see footnote 11).

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Financial covenants will begin on the earlier of October 1, 2008 or three months following the completion of construction of the Project and will be tested on a rolling four quarter basis. Certain covenants required to be met are debt service coverage ratio, cash on hand, and maximum debt to capitalization. The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Series 2006 Revenue Bonds. The letter of credit for the Series 2006 Revenue Bond issue is maintained at an amount sufficient to cover the outstanding obligation. The letter is due on October 15, 2011, but a provision is maintained stating that the letter may be extended by the Bank for one to five additional years. Interest is payable monthly at the bank's prime rate, not to exceed 10%. There are no outstanding borrowings on the letter of credit as of December 31, 2007.

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

The Hospital acquired a \$955,000 loan for the purchase of land in 2005 with scheduled interest only payments through August 5, 2007, at which time the principal became due. During August of 2007 the Hospital refinanced the loan. The principal is due on August 15, 2008 with interest payable monthly based on a 7.15% fixed rate.

The Hospital acquired an advance loan of \$8,000,000 in 2007 to finance the construction of the Twin Lakes Medical Building. Monthly payments of \$69,662 are due plus interest of 6.4% through December 27, 2022. Interest rates will change to 1.6% above the current 5 year treasury rate on December 27, 2011 and again on December 27, 2016. A summary of long term debt at December 31 is as follows:

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

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

	Balance December 31, 2005	Additional borrowings	Payments	Balance December 31, 2006	Current portion
2006 Bonds	\$ -0-	\$ 25,500,000	\$ -0-	\$ 25,500,000	\$ -0-
1994 IHFA revenue bonds	3,565,000	-0-	(385,000)	3,180,000	3,180,000
Note Payable - Land	955,000	-0-	-0-	955,000	955,000
	<u>\$ 4,520,000</u>	<u>\$ 25,500,000</u>	<u>\$ (385,000)</u>	<u>\$ 29,635,000</u>	<u>\$ 4,135,000</u>

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

Years Ending December 31,	Principal	Interest	Total
2008	\$ 2,788,624	\$ 1,583,526	\$ 4,372,150
2009	755,613	1,497,937	2,253,550
2010	794,052	1,457,538	2,251,590
2011	839,036	1,414,958	2,253,994
2012	885,667	1,369,884	2,255,551
2013-2017	5,208,436	6,077,764	11,286,200
2018-2022	6,693,572	4,493,384	11,186,956
2023-2027	3,990,000	3,172,156	7,162,156
2027-2031	4,950,000	2,248,684	7,198,684
2031-2035	6,150,000	1,101,764	7,251,764
2037-2038	1,400,000	59,360	1,459,360
	<u>\$ 34,455,000</u>	<u>\$ 24,476,955</u>	<u>\$ 58,931,955</u>

9. PHYSICIAN RELOCATION AGREEMENTS AND OTHER MINIMUM REVENUE GUARANTEES

Consistent with the Hospital's policy on physician relocation and recruitment, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically two years. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years. The Hospital also provides minimum revenue collection guarantees to Hospital-based physician groups providing certain services at the Hospital with terms ranging from one to three years.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

A physician established a practice in the service area of the Hospital on January 19, 2006, referred to as the "effective date". The Hospital shall make minimum monthly income guarantees to the Physician, in the form of loans, of \$20,833/month (\$250,000/year) for the guarantee period of 2 years (\$500,000 total guarantee).

During 2006, the Hospital recorded a liability of approximately \$250,000 for the fair value of new or modified guarantees entered into during the period with an offsetting asset recorded in other assets on the accompanying balance sheet, which is amortized over any remaining commitment period.

During 2007, an employment agreement was executed with the physician and therefore no offsetting liability remains. The amount of the asset is being amortized over the remaining 24 month guarantee period. The balance as of December 31, 2007 was \$309,026 of which \$195,174 is recorded in the current assets.

10. DEFERRED COMPENSATION AGREEMENT

In 2006, a deferred compensation agreement (the plan) was established for the CEO of the Hospital. The plan is funded at 50 percent of the CEO's base salary. The Hospital acts as the trustee of the investment account the funds are deposited into and the CEO is 100% vested in the contributions when made, as well as any investment earnings. The plan is expected to continue for the duration of the employment of the CEO. However, it can be terminated annually.

11. INTEREST RATE SWAP

In 2006, management entered into a "cash flow hedge interest rate swap" agreement with a financial institution. The Hospital pays a fixed interest rate, 4.24%, and the financial institution pays a variable interest rate (3.46% and 3.67% at December 31, 2007 and 2006) over term of the agreements. The total derivative liability for the Hospital is \$1,576,301 and \$976,287 as of December 31, 2007 and 2006.

The Hospital's objective is to provide protection against market driven increases in variable interest rates. The fair value of the agreement was determined by the financial institution using the present value of the estimated projected cash flows. The Hospital is in a liability position as of December 31, 2007 and 2006 due to the present value of its estimated projected cash flows being greater than the financial institution's present value of estimated projected cash flows. The agreement contains certain termination provisions depending upon the facts and circumstances surrounding the terminating event.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

12. EMPLOYEE HEALTH BENEFIT PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical and dental benefits. The plan has annual reinsurance coverage for individual claims and aggregate claims in excess of a stipulated amount per year. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$1,885,291 and \$1,289,126 for the years ended December 31, 2007 and 2006, respectively.

A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital maintains reinsurance including a stop loss for specific incident claims over \$70,000 and an employee life time maximum of \$2,000,000. Substantially all employees are covered for major medical benefits.

13. PENSION PLAN

The Hospital has a defined contribution pension plan administered by Lincoln National Life Insurance Company, Fort Wayne, Indiana as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing Lincoln Financial Group, 1500 Market St. 3900, Philadelphia, PA 19102. The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital contributes 8.5% of gross wages for covered employees in the Plan. Employer contributions to the plan for the years ended December 31, 2007 and 2006 were \$711,627 and \$610,553, respectively.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

14. CONCENTRATIONS OF CREDIT RISK

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

	<u>2007</u>	<u>2006</u>
Medicare	16%	33%
Medicaid	8%	7%
Blue Cross	7%	9%
Other Third-Party Payors	16%	30%
Patients	<u>53%</u>	<u>21%</u>
Total	<u>100%</u>	<u>100%</u>

15. MALPRACTICE INSURANCE

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

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through April 2010. Total rental expense in 2007 and 2006 for all operating leases was \$858,801 and \$825,444, respectively.

The following is a schedule by year of future minimum lease payments under non-cancelable operating leases as of December 31, 2007, that have initial or remaining lease terms in excess of one year.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 375,845
2009	269,004
2010	66,872
2011	5,113
	<u>\$ 716,834</u>

Operating Lease Commitments

The Hospital leases office space to tenants under operating leases with terms of one to ten years. The following is a schedule by years of future minimum rentals under the leases at December 31, 2007:

<u>Years Ending December 31,</u>	<u>Amount</u>
2008	\$ 326,104
2009	291,336
2010	291,336
2011	291,336
2012	291,336
Thereafter	1,221,620
	<u>\$2,713,068</u>

Service Agreements

The Hospital is involved in a service agreement for 2007 and 2006 for emergency services which requires an annual payment of \$300,000 and a \$100,000 line of credit for use by the service provider. There are no amounts outstanding on the line of credit at December 31, 2007 and 2006.

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.

WHITE COUNTY MEMORIAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Construction Commitment

The Hospital has committed to the construction of a new hospital and medical office building for a remaining estimated amount of approximately \$12 million as of December 31, 2007