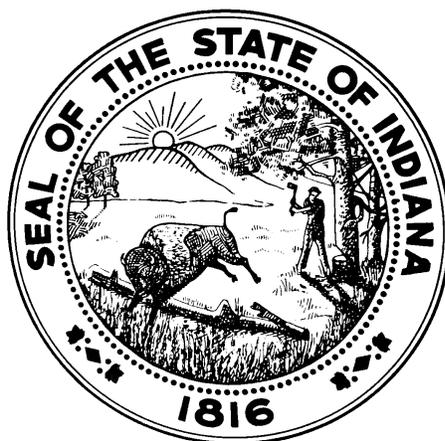


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF
JASPER COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
05/13/2009

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HOSPITAL OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|--------------------|----------------------|
| Executive Director | Timothy M. Schreeg | 01-01-08 to 12-31-09 |
| Treasurer | Jeffrey D. Webb | 01-01-08 to 12-31-09 |
| Chairman of the Hospital Board | Bruce Wood | 01-01-08 to 12-31-09 |
| President of the Board of County Commissioners | Kendell Culp | 01-01-08 to 12-31-09 |



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE JASPER COUNTY HOSPITAL, JASPER COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Jasper County Hospital (Hospital), and its aggregate discretely presented component units as of and for the year ended December 31, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

STATE BOARD OF ACCOUNTS

April 15, 2009

Management's Discussion and Analysis

Our discussion and analysis of Jasper County Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This annual report consists two parts--*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2008 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's net assets increased by \$5,235,877 or 37% as a result of this year's operations. This figure included \$4,881,699 in Medicaid Disproportionate Share and Upper Payment Limit distributions. This amount represents three years of such settlements. Historically, the Hospital receives only one year of such payments. The Hospital also sold a farm in 2008, with a sales proceeds of \$1,312,545. Net Patient Service Revenue increased by \$1,693,401 or 5.9% while total operating expenses increased by \$2,340,743 or 7.4%.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last 2 years:

Net Assets

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Current assets | \$ 15,707,948 | \$ 12,182,665 |
| Assets limited as to use | 892,758 | 961,944 |
| Capital assets | 5,424,255 | 3,973,928 |
| Other assets | <u>409,686</u> | <u>424,062</u> |
| Total Assets | <u>22,434,647</u> | <u>17,542,599</u> |
| Current liabilities | 3,025,107 | 3,337,339 |
| Long-term debt, net of current maturities | <u>46,255</u> | <u>77,852</u> |
| Total liabilities | <u>3,071,362</u> | <u>3,415,191</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 5,321,771 | 3,797,785 |
| Restricted | 1,770,364 | 452,438 |
| Unrestricted | <u>12,271,150</u> | <u>9,877,185</u> |
| Total Net Assets | <u>\$ 19,363,285</u> | <u>\$ 14,127,408</u> |

Changes in Net Assets

| | 2008 | 2007 |
|---|---------------|---------------|
| Revenue: | | |
| Net patient service revenue | \$ 30,240,319 | \$ 28,546,918 |
| Other revenues | 4,066,338 | 4,119,938 |
| Other nonoperating income/loss | 152,997 | 135,945 |
| Total Revenues | 34,459,654 | 32,802,801 |
| Expenses: | | |
| Salaries and benefits | 19,927,634 | 17,887,942 |
| Medical professional fees | 2,764,011 | 1,040,251 |
| Other professional fees | 1,441,278 | 3,064,636 |
| Medical supplies and drugs | 4,915,643 | 4,943,516 |
| Other supplies | 458,459 | 827,257 |
| Insurance | 691,817 | 413,315 |
| Depreciation and amortization | 541,702 | 506,206 |
| Other | 3,027,646 | 2,820,856 |
| Total Expenses | 33,768,190 | 31,503,979 |
| Excess of revenues over expenses before contributions | 691,464 | 1,298,822 |
| Capital grants and contributions | 177,002 | 185,772 |
| Sale of farm | 1,112,545 | - |
| Capital grants and contributions | 3,254,466 | - |
| Increase in net assets before prior period adjustment | 5,235,477 | 1,484,594 |
| Prior period adjustment, correction of capital asset accounts | - | (520,000) |
| Increase in net assets | \$ 5,235,477 | \$ 964,594 |

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year ended December 31, 2008 the Hospital had approximately \$5,424,255 invested in capital assets. The table below documents the type of assets that makeup the Capital Assets held by the Hospital as of December 31, 2008.

Capital Assets at Year-end
Net of Depreciation

| | 2008 | 2007 |
|-------------------------------|--------------|--------------|
| Land | \$ 53,965 | \$ 253,965 |
| Land improvements | 404,658 | 404,658 |
| Building | 6,604,619 | 6,741,253 |
| Construction in progress | 1,728,116 | 27,758 |
| Equipment | 5,443,441 | 5,065,041 |
| Total | 14,234,799 | 12,492,675 |
| Less accumulated depreciation | 8,810,544 | 8,518,747 |
| Capital Assets (Net) | \$ 5,424,255 | \$ 3,973,928 |

More detailed information related to the Hospital's capital assets can be obtained by reviewing the notes to the financial statements.

Debt

At year-end the Hospital had approximately \$128,788 in loans and capital leases outstanding, versus \$206,062 at the end of the previous year which represents a decrease of 37%. The table below documents the debt held and its use:

Outstanding Debt at Year End

| | 2008 | 2007 |
|-----------------------------|------------|------------|
| Insurance premium financing | \$ 26,304 | \$ 29,917 |
| Automobile financing | 13,326 | 16,486 |
| Capital leases | 89,158 | 159,659 |
| Total Debt | \$ 128,788 | \$ 206,062 |

More detailed information related to the Hospital's debt can be obtained by reviewing the notes to the financial statements.

During 2008, the Hospital began construction on a the first phases of an addition/renovation/office building project. Estimates prepared by architects engaged for the project total \$12 to \$13 million. The Hospital intends to finance the entire cost of the project, but Construction in Progress has been funded through cash reserves. Financing is being sought through the U.S. Department of Agriculture, Office of Rural Development.

Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrative offices at 1104 East Grace Street, Rensselaer, IN 47978.

JASPER COUNTY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2008

| <u>Assets</u> | <u>Primary Government</u> | <u>Discrete Component Units</u> | <u>Total Reporting Entity</u> |
|--|-------------------------------|---|---------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 7,318,920 | \$ 252,334 | \$ 7,571,254 |
| Short-term investments | - | 428,606 | 428,606 |
| Patient accounts receivable, net of estimated uncollectibles of \$2,973,978 | 6,384,308 | - | 6,384,308 |
| Supplies and other current assets | 1,323,780 | - | 1,323,780 |
| Noncurrent cash and investments: | | | |
| Internally designated | 892,758 | - | 892,758 |
| Capital assets: | | | |
| Land and construction work in progress | 1,782,081 | - | 1,782,081 |
| Depreciable capital assets, net of accumulated depreciation | 3,642,174 | - | 3,642,174 |
| Other assets | <u>409,686</u> | <u>-</u> | <u>409,686</u> |
| Total assets | <u>\$ 21,753,707</u> | <u>\$ 680,940</u> | <u>\$ 22,434,647</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt | \$ 82,533 | \$ - | \$ 82,533 |
| Accounts payable and accrued expenses | 2,195,360 | - | 2,195,360 |
| Estimated third-party payor settlements | 200,000 | - | 200,000 |
| Other current liabilities | 547,214 | - | 547,214 |
| Long-term debt, net of current maturities | <u>46,255</u> | <u>-</u> | <u>46,255</u> |
| Total liabilities | <u>3,071,362</u> | <u>-</u> | <u>3,071,362</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 5,321,771 | - | 5,321,771 |
| Restricted: | | | |
| Expendable for capital acquisitions | 288,041 | - | 288,041 |
| Expendable for farm expenditures | 1,406,163 | - | 1,406,163 |
| Expendable for specific operating activities | 76,160 | - | 76,160 |
| Unrestricted | <u>11,590,210</u> | <u>680,940</u> | <u>12,271,150</u> |
| Total net assets | <u>18,682,345</u> | <u>680,940</u> | <u>19,363,285</u> |
| Total liabilities and net assets | <u>\$ 21,753,707</u> | <u>\$ 680,940</u> | <u>\$ 22,434,647</u> |

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2008

| | <u>Primary Government</u> | <u>Discrete Component Units</u> | <u>Total Reporting Entity</u> |
|--|-------------------------------|---|---------------------------------------|
| Operating revenues: | | | |
| Net patient service revenue (net of provision for bad debt) | \$ 30,240,319 | \$ - | \$ 30,240,319 |
| Other | <u>3,817,963</u> | <u>248,375</u> | <u>4,066,338</u> |
| Total operating revenues | <u>34,058,282</u> | <u>248,375</u> | <u>34,306,657</u> |
| Operating expenses: | | | |
| Salaries and benefits | 19,927,634 | - | 19,927,634 |
| Medical professional fees | 2,764,011 | - | 2,764,011 |
| Other professional fees | 1,441,278 | - | 1,441,278 |
| Medical supplies and drugs | 4,915,643 | - | 4,915,643 |
| Insurance | 458,459 | - | 458,459 |
| Other supplies | 691,417 | - | 691,417 |
| Depreciation and amortization | 541,702 | - | 541,702 |
| Other | <u>2,753,706</u> | <u>87,658</u> | <u>2,841,364</u> |
| Total operating expenses | <u>33,493,850</u> | <u>87,658</u> | <u>33,581,508</u> |
| Operating income | <u>564,432</u> | <u>160,717</u> | <u>725,149</u> |
| Nonoperating revenues (expenses): | | | |
| Investment income | 148,312 | - | 148,312 |
| Investment expense | (8,867) | - | (8,867) |
| Noncapital grants and contributions | 24,780 | - | 24,780 |
| Gain (loss) on sale of equipment | (11,228) | - | (11,228) |
| Other | <u>-</u> | <u>(186,282)</u> | <u>(186,282)</u> |
| Total nonoperating revenues (expenses) | <u>152,997</u> | <u>(186,282)</u> | <u>(33,285)</u> |
| Excess (deficiency) of revenues over (under) expenses before capital grants and contributions, and special items | 717,429 | (25,565) | 691,864 |
| Capital grants and contributions | 177,002 | - | 177,002 |
| Special Items: | | | |
| Sale of farm (See Note II I.) | 1,112,545 | - | 1,112,545 |
| Receipt of settlement for outstanding DSH/UPL (See Note II J.) | <u>3,254,466</u> | <u>-</u> | <u>3,254,466</u> |
| Increase in net assets | 5,261,442 | (25,565) | 5,235,877 |
| Net assets beginning of the year | <u>13,420,903</u> | <u>706,505</u> | <u>14,127,408</u> |
| Net assets end of the year | <u>\$ 18,682,345</u> | <u>\$ 680,940</u> | <u>\$ 19,363,285</u> |

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2008

| | <u>2008</u> |
|--|---------------------|
| Cash flows from operating activities: | |
| Receipts from and on behalf of patients | \$ 30,174,759 |
| Payments to suppliers and contractors | (13,068,766) |
| Payments to employees | (20,289,622) |
| Other receipts and payments, net | <u>4,114,322</u> |
| Net cash provided by operating activities | <u>930,693</u> |
| Cash flows from noncapital financing activities: | |
| Noncapital grants and contributions | 24,780 |
| Other | <u>(186,282)</u> |
| Net cash used by noncapital financing activities | <u>(161,502)</u> |
| Cash flows from capital and related financing activities: | |
| Capital grants and contributions | 177,002 |
| Acquisition and construction of capital assets | (2,163,881) |
| Proceeds from loan payable | 149,255 |
| Proceeds from sale of capital assets | 1,312,545 |
| Proceeds from special items | 3,254,466 |
| Principal paid on long-term debt | (251,529) |
| Interest paid on long-term debt | <u>(8,867)</u> |
| Net cash provided by capital and related financing activities | <u>2,468,991</u> |
| Cash flows from investing activities: | |
| Interest and dividends on investments | 148,312 |
| Proceeds from sale of investments | <u>211,699</u> |
| Net cash provided by investing activities | <u>360,011</u> |
| Net increase in cash and cash equivalents | 3,598,193 |
| Cash and cash equivalents at beginning of year | <u>4,865,819</u> |
| Cash and cash equivalents at end of year | <u>\$ 8,464,012</u> |
| Reconciliation of cash and cash equivalents to the Statement of Net Assets: | |
| Cash and cash equivalents in current assets | \$ 7,571,254 |
| Restricted cash and cash equivalents | <u>892,758</u> |
| Total cash and cash equivalents | <u>\$ 8,464,012</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| Operating income | \$ 725,149 |
| Adjustments to reconcile operating income (loss) to net cash flows used in operating activities: | |
| Depreciation and amortization | 541,702 |
| Patient accounts receivable | (154,879) |
| Supplies and other current assets | 85,276 |
| Increase (decrease) in current liabilities: | |
| Accounts payable and accrued expenses | (400,225) |
| Other current liabilities | <u>133,670</u> |
| Net cash provided in operating activities | <u>\$ 930,693</u> |

Noncash investing, capital, and financing activities:
The Hospital included \$14,375 of amortization in depreciation and amortization expense.
The Hospital entered into capital lease obligations of \$25,000 for new equipment in 2008.

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Jasper County Hospital (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 Jasper 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 Jasper County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Units

The Jasper County Hospital Foundation is a significant discretely presented component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. The Foundation's financial statements may be obtained from its Treasurer's office at 1104 East Grace Street, Rensselaer, IN 47978.

Separate audit reports are not prepared for the individual component units.

B. 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.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit 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.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|----------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land improvements | \$ 2,500 | Straight-line | 20 years |
| Buildings and improvements | 2,500 | Straight-line | 40 years |
| Equipment | 2,500 | Straight-line | 5-10 years |

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The Hospital did not capitalize any interest expense during the current year 2008.

4. Net Assets

Net assets of the Hospital are classified in three components.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, discussed in Note II.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

From time to time, the Hospital receives grants from Jasper County and the State of Indiana 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.

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

F. 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.

G. 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, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid hours off, at a rate of 6.16 to 12.31 hours per pay period.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Part-time employees earn paid hours off at a rate of 5% of their hours paid including overtime, but excluding on-call time, after a minimum of 600 hours are worked during their benefit year.

The Hospital accounts for accrued compensated absences on a per payroll basis, computed at current wage rates, and the financial statements recognize their liability. The Hospital pays accumulated paid hours off upon employee termination.

II. Detailed Notes

A. 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 Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Statement on Financial Accounting Standards No. 157 (FAS 157), Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include Internally Designated Investments which are measured using quoted prices in active markets and other significant observable inputs.

The Hospital partially adopted the provisions of FAS 157 for 2008, but will delay adoption of non-financial assets and nonfinancial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits entities to partially defer the effective date of FAS 157 for non-financial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain nonfinancial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, the Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the Statement of Net Assets are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market that the Hospital has the ability to access. Investments include mutual funds.

Level 2 – These are investments where the values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of U.S. government securities that trade infrequently and certificates of deposit.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

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

| Investment Type | December 31, 2008 | Fair value measurements reporting date using | | |
|-----------------|----------------------|---|---|---|
| | | Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual funds | \$ 428,606 | \$ 428,606 | \$ - | \$ - |

B. 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:

Patient Accounts Receivable

| | |
|---|---------------------|
| Receivable from patients and their insurance carriers | \$ 6,510,814 |
| Receivable from Medicare | 2,171,220 |
| Receivable from Medicaid | <u>676,252</u> |
| Total patient accounts receivable | 9,358,286 |
| Less allowance for uncollectible amounts | <u>2,973,978</u> |
| Patient accounts receivable, net | <u>\$ 6,384,308</u> |

Accounts Payable and Accrued Expenses

| | |
|--|---------------------|
| Payable to employees (including payroll taxes) | \$ 1,272,519 |
| Payable to suppliers | 607,864 |
| Other | <u>314,977</u> |
| Total accounts payable and accrued expenses | <u>\$ 2,195,360</u> |

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

| <u>Primary Government</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------------|-----------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 253,965 | \$ - | \$ 200,000 | \$ 53,965 |
| Construction in progress | <u>27,758</u> | <u>1,700,358</u> | <u>-</u> | <u>1,728,116</u> |
| Total capital assets, not being depreciated | <u>281,723</u> | <u>1,700,358</u> | <u>200,000</u> | <u>1,782,081</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 404,658 | - | - | 404,658 |
| Building and improvements | 6,741,251 | 13,366 | 150,000 | 6,604,617 |
| Equipment | <u>5,065,045</u> | <u>746,138</u> | <u>367,740</u> | <u>5,443,443</u> |
| Totals | <u>12,210,954</u> | <u>759,504</u> | <u>517,740</u> | <u>12,452,718</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 349,353 | 17,159 | - | 366,512 |
| Building and improvements | 4,734,647 | 111,069 | 150,000 | 4,695,716 |
| Equipment | <u>3,434,751</u> | <u>399,099</u> | <u>85,534</u> | <u>3,748,316</u> |
| Totals | <u>8,518,751</u> | <u>527,327</u> | <u>235,534</u> | <u>8,810,544</u> |
| Total capital assets, being depreciated, net | <u>3,692,203</u> | <u>232,177</u> | <u>282,206</u> | <u>3,642,174</u> |
| Total primary government capital assets, net | <u>\$ 3,973,926</u> | <u>\$ 1,932,535</u> | <u>\$ 482,206</u> | <u>\$ 5,424,255</u> |

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Construction Commitments

Construction work in progress is composed of the following:

| <u>Project</u> | <u>Total Project Authorized</u> | <u>Expended to December 31, 2008</u> | <u>Committed</u> | <u>Required Future Funding</u> |
|----------------------------------|---|--|-------------------------|--|
| Medical/Surgical renovation | \$ 100,000 | \$ 33,062 | \$ 66,938 | \$ - |
| Site improvement | 1,406,100 | 725,805 | 680,295 | 680,295 |
| Office building | 1,085,050 | 82,862 | 1,002,188 | 1,002,188 |
| Related architectural fees, etc. | <u>1,142,332</u> | <u>886,387</u> | <u>255,945</u> | <u>255,945</u> |
| Totals | <u>\$ 3,733,482</u> | <u>\$ 1,728,116</u> | <u>\$ 2,005,366</u> | <u>\$ 1,938,428</u> |

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining non-cancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$1,141,259. The following is a schedule by years of future minimum rental payments as of year end:

| | |
|-----------|-------------------------|
| 2009 | \$ 1,092,801 |
| 2010 | 1,074,873 |
| 2011 | 960,189 |
| 2012 | 116,573 |
| 2013 | <u>1,926</u> |
| Total | <u>\$ 3,246,362</u> |

2. Capital Leases

The Hospital has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of yearend, are as follows:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

| | | |
|---|----|-------------------------|
| 2009 | \$ | 57,658 |
| 2010 | | 20,568 |
| 2011 | | 13,353 |
| 2012 | | <u>6,327</u> |
| Total minimum lease payments | | 97,906 |
| Less amount representing interest | | <u>8,748</u> |
| Present value of net minimum lease payments | | <u><u>\$ 89,158</u></u> |

Assets acquired through capital leases still in effect are as follows:

| | | |
|--------------------------|----|--------------------------|
| Equipment | \$ | 204,573 |
| Accumulated depreciation | | <u>73,372</u> |
| Total | | <u><u>\$ 131,201</u></u> |

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$3,451, are as follows:

| | | |
|-------|----|-------------------------|
| 2003 | \$ | 4,217 |
| 2004 | | 4,217 |
| 2005 | | 4,217 |
| 2006 | | <u>2,458</u> |
| Total | | <u><u>\$ 15,109</u></u> |

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

| <u>Primary Government</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------|------------------------------|--------------------------|--------------------------|---------------------------|--------------------------------|
| Capital leases | \$ 159,659 | \$ 25,000 | \$ 95,501 | \$ 89,158 | \$ 52,840 |
| Notes payable | <u>46,403</u> | <u>149,255</u> | <u>156,028</u> | <u>39,630</u> | <u>29,693</u> |
| Total long-term liabilities | <u><u>\$ 206,062</u></u> | <u><u>\$ 174,255</u></u> | <u><u>\$ 251,529</u></u> | <u><u>\$ 128,788</u></u> | <u><u>\$ 82,533</u></u> |

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$143,433 for 2008.

H. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Capital Improvement Funds – Funds designated by the Hospital Board of Trustees for construction and other capital improvement.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently, use for other purposes.

| | |
|---------------------------------|------------------------------|
| Internally designated: | |
| Capital improvement: | |
| Cash and cash equivalents | \$ 147,400 |
| Board designation: | |
| Cash and cash equivalents | <u>745,358</u> |
| Total internally designated | <u><u>\$ 892,758</u></u> |

I. Sale of Farm

During 2008, The Hospital sold a farm that had been donated approximately 50 years ago. The farm had been on the Hospital's fixed asset records with a \$200,000 book value. The proceeds of the sale totaled \$1,312,545, so the gain on the sale was \$1,112,545. The gain on this sale has been classified as a special item on the Statement of Revenues, Expenses and Changes in Net Assets.

J. Receipt of Settlement for Outstanding DSH/UPL

During 2008, the Hospital received the equivalent of three years of Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) payments. Historically, only one of these payments had been received and booked as income in each year. Because of the uncertainty surrounding these payments no receivable had been accrued in the year the revenue was earned. Due to the unusual nature of receiving three years of these payments in the same year, the revenue for two of the three years shown on the Statement of Revenue, Expenses, and Changes in Net Assets as a special item. This distribution totaled \$4,881,699 with \$3,254,466 being reported as a special item.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits To Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Self-Insurance Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund 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 (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

| | 2008 | 2007 |
|--|-------------|-------------|
| Unpaid claims, beginning of fiscal year | \$ 225,657 | \$ 275,578 |
| Incurred claims and changes in estimates | 2,730,418 | 2,464,789 |
| Claim payments | (2,638,098) | (2,514,710) |
| Unpaid claims, end of fiscal year | \$ 317,977 | \$ 225,657 |

B. Contingent Liabilities

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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

D. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2008, net patient service revenues in the accompanying statements of operations were increased by \$693,992, to reflect changes in the estimated settlements for certain prior years.

E. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln National Life 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 contacting:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Lincoln National Life Insurance
1300 South Clinton
Fort Wayne, Indiana 46801
Ph. 800-454-6265

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at the rate of 2 ½% of an employee's first \$50,000 in wages and 5% on all wages above \$50,000. Employer contributions to the plan for the year 2008 were accrued at year end in the amount of \$322,932.

JASPER COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 15, 2009, with Jeffrey D. Webb, Treasurer; Timothy M. Schreeg, Executive Director; and Bruce Wood, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.