

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, 2006 to December 31, 2006



FILED
05/15/2007

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Timothy M. Schreeg	01-01-06 to 12-31-07
Treasurer	Jeffery D. Webb	01-01-06 to 12-31-07
Chairman of the Hospital Board	Bruce Wood	01-01-06 to 12-31-07
President of the Board of County Commissioners	Richard Maxwell Kendall Culp	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
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, 2006, 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 did not audit the financial statements of the Jasper County Hospital Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component units as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis 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 11, 2007

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, 2006. 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, 2006 while the Statement of Activities 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 \$531,912 or 4.2% as a result of this year's operations. Net Patient Service Revenue increased by \$2,394,552 or 9.1% while total expenses increased by \$2,249,354 or 8.0%.

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>2006</u>	<u>2005</u>
Current Assets	10,240,300	9,642,145
Assets limited as to use	1,008,725	778,298
Capital assets	4,435,489	4,801,655
Other Assets	<u>438,437</u>	<u>452,812</u>
Total Assets	<u>16,122,951</u>	<u>15,674,910</u>
Current Liabilities	2,820,560	2,832,245
Long-term debt, net of current maturities	<u>139,577</u>	<u>211,763</u>
Total Liabilities	<u>2,960,137</u>	<u>3,044,008</u>
Net Assets		
Restricted	493,361	475,358
Unrestricted	<u>12,669,453</u>	<u>12,155,544</u>
Total Net Assets	<u>13,162,814</u>	<u>12,630,902</u>

Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenue		
Net patient service revenue	28,702,532	26,307,980
Other Revenues	1,866,794	2,039,156
Other nonoperating Income	98,056	86,563
Capital grants and contributions	<u>151,700</u>	<u>150,415</u>
Total Revenues	<u>30,819,082</u>	<u>28,584,114</u>
Expenses:		
Salaries and Benefits	16,899,397	15,901,500
Medical Professional Fees	1,017,271	1,025,476
Other Professional Fees	2,696,538	2,715,291
Medical supplies and drugs	5,004,954	4,491,622
Other supplies	1,185,541	568,032
Insurance	500,693	433,938
Depreciation and amortization	546,323	601,585
Other	<u>2,436,453</u>	<u>2,300,372</u>
Total Expenses	<u>30,287,170</u>	<u>28,037,816</u>
Increase in net assets	531,912	546,298

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year ended December 31, 2006 the Hospital had approximately \$4,435,489 invested in capital assets. The table below documents the type of assets that makeup of the Capital Assets held by the Hospital as of December 31, 2006.

Capital Assets at Year-end Net of Depreciation

	<u>2006</u>	<u>2005</u>
Land	253,965	253,965
Land Improvements	404,658	404,658
Buildings	6,675,743	6,558,940
Equipment	<u>5,668,887</u>	<u>5,954,647</u>
Total	13,003,253	13,172,210
Less Accumulated Depreciation	<u>8,567,764</u>	<u>8,370,555</u>
Capital Assets (Net)	4,435,489	4,801,655

Debt

At year-end the Hospital had approximately \$262,340 in loans and capital leases outstanding, versus \$428,652 at the end of the previous year which represents an decrease of 39%. The table below documents the debt held and its use:

Outstanding Debt at Year End

	<u>2006</u>	<u>2005</u>
Mortgage Loan	--	112,049
Revolving Credit Line	--	--
Insurance Premium Financing	29,839	15,932
Capital Leases	<u>232,501</u>	<u>300,671</u>
Total Debt	262,340	428,652

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

	<u>December 31, 2006</u>	<u>June 30, 2006</u>	Total Reporting Entity
	Primary Government	Discrete Component Unit	
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,763,712	\$ 42,085	\$ 1,805,797
Short-term investments	-	542,370	542,370
Patient accounts receivable, net of estimated uncollectibles of \$3,117,265	6,814,580	-	6,814,580
Supplies and other current assets	1,077,553	-	1,077,553
Noncurrent cash and investments:			
Internally designated	1,008,725	-	1,008,725
Capital assets:			
Land	253,965	-	253,965
Depreciable capital assets, net of accumulated depreciation	4,181,524	-	4,181,524
Other assets	<u>438,437</u>	<u>-</u>	<u>438,437</u>
Total assets	<u>\$ 15,538,496</u>	<u>\$ 584,455</u>	<u>\$ 16,122,951</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 122,763	\$ -	\$ 122,763
Accounts payable and accrued expenses	2,139,975	-	2,139,975
Estimated third-party payor settlements	200,000	-	200,000
Other current liabilities	357,822	-	357,822
Long-term debt, net of current maturities	<u>139,577</u>	<u>-</u>	<u>139,577</u>
Total liabilities	<u>2,960,137</u>	<u>-</u>	<u>2,960,137</u>
Net assets:			
Invested in capital assets, net of related debt	4,173,149	-	4,173,149
Restricted:			
Expendable for capital acquisitions	246,689	-	246,689
Expendable for farm expenditures	185,254	-	185,254
Expendable for specific operating activities	61,418	-	61,418
Unrestricted	<u>7,911,849</u>	<u>584,455</u>	<u>8,496,304</u>
Total net assets	<u>12,578,359</u>	<u>584,455</u>	<u>13,162,814</u>
Total liabilities and net assets	<u>\$ 15,538,496</u>	<u>\$ 584,455</u>	<u>\$ 16,122,951</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		Total Reporting Entity
	December 31, 2006	June 30, 2006	
	Primary Government	Discrete Component Unit	
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 28,702,532	\$ -	\$ 28,702,532
Other	<u>1,722,162</u>	<u>144,632</u>	<u>1,866,794</u>
Total operating revenues	<u>30,424,694</u>	<u>144,632</u>	<u>30,569,326</u>
Operating expenses:			
Salaries and benefits	16,899,397	-	16,899,397
Medical professional fees	1,017,271	-	1,017,271
Other professional fees	2,696,538	-	2,696,538
Medical supplies and drugs	5,004,954	-	5,004,954
Insurance	500,693	-	500,693
Other supplies	1,185,541	-	1,185,541
Depreciation and amortization	546,323	-	546,323
Other	<u>2,177,733</u>	<u>121,216</u>	<u>2,298,949</u>
Total operating expenses	<u>30,028,450</u>	<u>121,216</u>	<u>30,149,666</u>
Operating income	<u>396,244</u>	<u>23,416</u>	<u>419,660</u>
Nonoperating revenues (expenses):			
Investment income	38,472	-	38,472
Interest expense	(23,576)	-	(23,576)
Noncapital grants and contributions	56,475	-	56,475
Loss on sale of equipment	(113,928)	-	(113,928)
Other	<u>(24,232)</u>	<u>27,341</u>	<u>3,109</u>
Total nonoperating revenues (expenses)	<u>(66,789)</u>	<u>27,341</u>	<u>(39,448)</u>
Excess of revenues over expenses before capital grants and contributions	329,455	50,757	380,212
Capital grants and contributions	<u>151,700</u>	<u>-</u>	<u>151,700</u>
Increase in net assets	481,155	50,757	531,912
Net assets beginning of the year	<u>12,097,204</u>	<u>533,698</u>	<u>12,630,902</u>
Net assets end of the year	<u>\$ 12,578,359</u>	<u>\$ 584,455</u>	<u>\$ 13,162,814</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, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 29,036,870
Payments to suppliers and contractors	(12,580,094)
Payments to employees	(16,526,438)
Other receipts and payments, net	<u>1,553,844</u>
Net cash provided by operating activities	<u>1,484,182</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	56,475
Other	<u>3,109</u>
Net cash provided by noncapital financing activities	<u>59,584</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	151,700
Proceeds from loan payable	179,770
Principal paid on long-term debt	(373,135)
Interest paid on long-term debt	(23,576)
Purchase of capital assets	<u>(253,235)</u>
Net cash used by capital and related financing activities	<u>(318,476)</u>
Cash flows from investing activities:	
Interest and dividends on investments	38,472
Purchase of investments	<u>(75,627)</u>
Net cash used by investing activities	<u>(37,155)</u>
Net increase in cash and cash equivalents	1,188,135
Cash and cash equivalents at beginning of year	<u>1,626,387</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,814,522</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 1,805,797
Restricted cash and cash equivalents	<u>1,008,725</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,814,522</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 419,660
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	546,323
(Increase) decrease in current assets:	
Patient accounts receivable	476,801
Supplies and other current assets	(41,621)
Increase in current liabilities:	
Accounts payable and accrued expenses	19,942
Other current liabilities	<u>63,077</u>
Net cash provided in operating activities	<u><u>\$ 1,484,182</u></u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$26,475 for new equipment in 2006.

The Hospital included \$14,375 of amortization in the depreciation and amortization expenses.

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 unit. The component unit discussed below is 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 Statement of Net Assets is presented as of June 30, 2006, and its Statement of Revenues, Expenses, and Changes in Net Assets is presented for the year ended June 30, 2006.

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.

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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 nonoperating 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 2,500	Straight-line	20 years
Buildings and improvements	2,500	Straight-line	40 years
Equipment	2,500	Straight-line	5 to 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 in during 2006.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 hours 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.

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 this liability. The Hospital pays accumulated paid hours off upon employee termination.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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	\$ 6,397,269
Receivable from Medicare	2,683,612
Receivable from Medicaid	<u>850,964</u>
 Total patient accounts receivable	 9,931,845
 Less allowance for uncollectible amounts	 <u>3,117,265</u>
 Patient accounts receivable, net	 <u>\$ 6,814,580</u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,237,366
Payable to suppliers	621,228
Other	<u>281,381</u>
 Total accounts payable and accrued expenses	 <u>\$ 2,139,975</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, 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	\$ -	\$ -	\$ 253,965
Capital assets, being depreciated:				
Land improvements	404,658	-	-	404,658
Buildings and improvements	6,558,940	116,803	-	6,675,743
Equipment	<u>5,954,646</u>	<u>162,907</u>	<u>448,665</u>	<u>5,668,888</u>
Totals	<u>12,918,244</u>	<u>279,710</u>	<u>448,665</u>	<u>12,749,289</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Less accumulated depreciation for:				
Land improvements	303,621	22,865	-	326,486
Buildings and improvements	4,521,278	101,485	-	4,622,763
Equipment	<u>3,545,655</u>	<u>407,598</u>	<u>334,737</u>	<u>3,618,516</u>
Totals	<u>8,370,554</u>	<u>531,948</u>	<u>334,737</u>	<u>8,567,765</u>
Total capital assets, being depreciated, net	<u>4,547,690</u>	<u>(252,238)</u>	<u>113,928</u>	<u>4,181,524</u>
Total primary government capital assets, net	<u>\$ 4,801,655</u>	<u>\$ (252,238)</u>	<u>\$ 113,928</u>	<u>\$ 4,435,489</u>

D. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for a CT scanner, an Omni-cell machine, copiers, surgical instruments and a PACS System. Rental expenditures for these leases were \$114,838, \$40,101, \$12,434, \$30,597 and \$155,955, respectively. The following is a schedule by years of future minimum rental payments as of year end:

2007	\$ 364,064
2008	241,601
2009	211,400
2010	193,609
2011	<u>173,169</u>
Total	<u>\$ 1,183,843</u>

2. Capital Leases

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

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2007	\$	105,947
2008		95,684
2009		43,290
2010		13,056
2011		<u>3,530</u>
Total minimum lease payments		261,507
Less amount representing interest		<u>29,006</u>
Present value of net minimum lease payments		<u>\$ 232,501</u>

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

Equipment	\$	451,001
Accumulated depreciation		<u>29,006</u>
Total	\$	<u>421,995</u>

3. Loans Payable

The Hospital has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$904, are as follows:

2007	\$	<u>30,743</u>
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4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, 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	\$ 300,671	\$ 26,475	\$ 94,645	\$ 232,501	\$ 92,924
Loans	<u>128,559</u>	<u>179,770</u>	<u>278,490</u>	<u>29,839</u>	<u>29,839</u>
Total long-term liabilities	<u>\$ 429,230</u>	<u>\$ 206,245</u>	<u>\$ 373,135</u>	<u>\$ 262,340</u>	<u>\$ 122,763</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	2006
Specific Purpose Funds:	
Other	\$ 61,418
Cumulative building funds:	
Purchase of equipment	246,689
Farm activity funds:	
Farm activity	185,254
Total expendable, restricted net assets	\$ 493,361

F. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$226,067 for 2006.

G. 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.

	2006
Internally designated:	
Capital improvement:	
Cash and cash equivalents	\$ 246,689
Board designation:	
Cash and cash equivalents	762,036
Total internally designated	\$ 1,008,725

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.

JASPER COUNTY HOSPITAL
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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; 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 \$65,000 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:

	2006	2005
Unpaid claims, beginning of fiscal year	\$ 289,335	\$ 315,357
Incurred claims and changes in estimates	1,639,709	1,996,463
Claim payments	(1,653,466)	(2,022,485)
Unpaid claims, end of fiscal year	\$ 275,578	\$ 289,335

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.

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.

JASPER COUNTY HOSPITAL
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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 2006, net patient service revenues in the accompanying statements of operations were increased by \$40,951, 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:

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 an actuarially determined rate. The current rate is 2½% of an employee's first \$50,000 in wages and 5% on all wages above \$50,000. Employer contributions to the plan were accrued at year end in the amount of \$349,053.

JASPER COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on April 11, 2007, with Timothy M. Schreeg, Executive Director; Jeffery D. Webb, Treasurer; and Bruce Wood, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.