B35951

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 25, 2010

Board of Directors
Good Samaritan Hospital
520 South Seventh St
Vincennes, IN 47591

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Good Samaritan Hospital, as of December 31, 2008 and the results of its operations for the periods then ended, on the basis of accounting described in the report.

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

.

STATE BOARD OF ACCOUNTS

Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Accountants' Report and Financial Statements

December 31, 2008 and 2007

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2008 and 2007

Contents

BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700
P.O. Box 44998
Indianapolis, IN 46244-0998
317.383.4000 Fax 317.383.4200 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Governors
Good Samaritan Hospital
Vincennes, Indiana

We have audited the accompanying balance sheets of Good Samaritan Hospital (Hospital), a component unit of Knox County, Indiana, as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Samaritan Hospital as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents are not a required part of the basic financial statements but are 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.

BKD, LLP

April 3, 2009

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Management's Discussion and Analysis
December 31, 2008 and 2007

Introduction

This management's discussion and analysis of the financial performance of Good Samaritan Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2008 and 2007 by $485,345 (1%) and $4,784,445 (6%), respectively.
- The Hospital reported operating income in both 2008 and 2007 of $5,127,582 and $4,761,896, respectively. The operating income in 2008 increased by 7.7% over the operating income reported in 2007, and 2007 decreased by 33.7% compared to 2006.
- Net nonoperating revenues decreased by $13,572,040 in 2008 compared to 2007, primarily attributable to investment losses. In 2007, nonoperating revenues decreased by $873,892 compared to 2006.

The total change in net assets in 2008 is a decrease of $(3,230,459) compared to an increase of $9,975,895 in 2007.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by $3,230,459 in 2008 over 2007 and net assets increased by $9,975,895 in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets			
Patient accounts receivable, net	$ 21,061,372	$ 19,282,743	$ 21,586,739
Other current assets	65,723,896	70,921,344	71,877,903
Capital assets, net	81,126,736	83,268,207	73,394,891
Other noncurrent assets	18,680,392	18,951,237	18,269,456
Total assets	$ 186,592,396	$ 192,423,531	$ 185,128,989
Liabilities			
Long-term debt	$ 31,670,882	$ 35,026,999	$ 37,958,221
Other current and long-term liabilities	12,827,793	12,072,352	11,822,483
Total liabilities	44,498,675	47,099,351	49,780,704
Net Assets			
Invested in capital assets, net of related debt	49,455,854	48,241,208	35,436,670
Restricted expendable	2,451,478	2,358,189	2,227,700
Unrestricted	90,186,389	94,724,783	97,683,915
Total net assets	142,093,721	145,324,180	135,348,285
Total liabilities and net assets	$ 186,592,396	$ 192,423,531	$ 185,128,989

A significant change in the Hospital's assets in 2008 is the increase in patient accounts receivable. Net patient service revenues increased in 2008 by $8,733,108 (6.5%) as compared to 2007, net patient accounts receivable increased by $1,778,629 (9.2%) or five days of revenue at December 31, 2008 versus December 31, 2007. The increase results primarily from the successful recruitment of hospital physicians as well as other specialists required to meet the healthcare needs of the community we serve. In 2007, patient accounts receivable decreased $2,303,996 (10.7%), although net patient service revenues increased in 2007 by $8,806,258 (7.0%).

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets decreased by $3,230,459 (2.2%) compared to an increase in net assets during 2007 of $9,975,895 (7.4%), as shown in Table 2. This 2008 decrease is made up of several different components and represents a decline of 69% compared with the increase in net assets for 2007 of $9,975,895 (7.4%). The 2007 increase in net assets represents a decline of 24.8% compared to the increase for 2006 of $13,269,259.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenue			
Net patient service revenue	$ 143,362,093	$ 134,628,985	$ 125,822,727
Other operating revenue	2,568,734	1,873,096	2,042,081
Total operating revenue	145,930,827	136,502,081	127,864,808
Operating Expenses			
Salaries and wages and employee benefits	78,852,897	75,378,430	67,906,354
Purchased services and professional fees	23,908,010	19,985,328	18,792,919
Depreciation and amortization	9,959,280	9,100,216	8,443,746
Other operating expenses	28,083,058	27,276,211	25,540,421
Total operating expenses	140,803,245	131,740,185	120,683,440
Operating Income	5,127,582	4,761,896	7,181,368
Nonoperating Revenue (Expenses)			
Investment income	(9,097,072)	4,837,992	5,749,413
Contributions, net of program expenses	2,062,222	1,785,359	2,035,919
Interest expense	(1,323,191)	(1,409,352)	(1,697,441)
Total nonoperating revenue	(8,358,041)	5,213,999	6,087,891
Increase (Decrease) in Net Assets	$ (3,230,459)	$ 9,975,895	$ 13,269,259

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Knox County and the surrounding area. The Hospital implements strong cost controls to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2008 increased by $365,686 (7.7%) as compared to 2007. Operating income for 2007 decreased by $2,419,472 (33.7%) as compared to 2006. The primary components of the fluctuation in operating income are:

- An increase in salaries, benefits and wages for the Hospital's employees of $3,474,467 (4.61%) in 2008 compared to an increase in 2007 of $7,472,076 (11%).
- A decrease in pharmacy supplies and drug costs of $684,253 (8.9%) in 2008 compared to an increase of $1,665,615 (7.6%) in 2007.
- An increase in purchased services and professional fees of $3,922,682 (19.6%) in 2008 compared to an increase of $1,192,409 (6.3%) in 2007.
- These increases were offset by an increase in net patient service revenue of $8,733,108 (6.5%) for 2008.

Net patient service revenue increased because of an increase in ancillary visits of 160,894 from 2007 to 2008. This increase resulted primarily from these increased visits along with rate increases to cover anticipated expense increases for 2008.

Employee salaries and wages and benefits increased in 2008 and 2007 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of physicians, nurses and other health care professionals in the United States. Also, the Hospital recruited an oncologist who began employment in late 2008 to replace an oncologist who relocated in the second half of 2008.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Expenditures for medical supplies and prescription drugs are a major component of the Hospital's costs. In 2007, medical supplies and prescription drug costs totaled $23,570,140 (17.9%) of total operating expenses. In 2008, they totaled $23,981,838 (17.0%) of total operating expenses, an increase of $411,698 (1.8%) over 2007. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

The increase in net patient service revenue of $8,733,108 was offset by increases in employee salaries and wages and increases in purchased services and professional fees as discussed above. The Hospital was able to hold the increase in other operating expenses to approximately 3.0%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment, contribution and grant income along with interest expense, all of which remained relatively constant in 2008 as compared to 2007 and 2006, except investment income. The Hospital recognized a decrease in its investment return in 2008 compared to 2007, resulting primarily from less favorable earnings on equity funds held. Total investment return for 2008 was a negative return of $(9,097,072) compared to a positive return in 2007 of $4,837,992. Contribution and grant income in 2008 was $2,062,222 compared to $1,785,359. This increase of $276,863 (15.5%) is due to a significant contribution received in the form of a trust during 2008.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2008 and 2007, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008 and 2007, the Hospital had $81,126,736 and $83,268,207 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008 and 2007, the Hospital purchased new capital assets costing $7,656,453 and $18,817,769, respectively.

During 2008, the Hospital's new cancer pavilion opened, and in 2007, the Hospital completed a significant renovation to the emergency department and the data center expansion.

Debt

At December 31, 2008 and 2007, the Hospital had $31,670,882 and $35,026,999, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. Except for new capital leases of $279,883 initiated in 2007, the Hospital issued no new debt in 2008 or 2007. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years. The ratings have remained positive in the range of A to AA during this period of time.

Other Economic Factors

A large employer in the Hospital's geographic area, the Essex Wire Company, has a number of operating plants throughout the world. In late 2007, Essex announced that it would close its plant in Vincennes and move the majority of that plant's operations (including up to 200 full-time employees) to its other plants in the summer of 2009. Duke Energy has begun building a two billion dollar coal gasification plant, which will create 1,000 jobs over the next 3 years and 125 full-time jobs at time of completion. Vectren Fuels is currently constructing two mines in Knox County, which will create over 400 jobs that will also boost the local economy when completed.

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. Questions about this report and requests for additional financial information should be directed to the Hospital's CFO by telephoning (812) 885-3891.

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Balance Sheets
December 31, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash and cash equivalents	$ 26,192,836	$ 26,055,988
Short-term investments	31,778,820	30,389,336
Restricted cash - current	2,451,478	2,358,189
Patient accounts receivable, net of allowance; 2008 - $6,850,000, 2007 - $6,100,000	21,061,372	19,282,743
Other receivables	1,060,927	1,264,573
Estimated amounts due from third-party payers	-	6,924,214
Supplies	1,148,375	1,001,592
Prepaid expenses and other	3,091,460	2,927,452
Total current assets	86,785,268	90,204,087
Noncurrent Cash and Investments		
Internally designated	8,412,327	11,754,470
Other long-term investments	7,874,778	5,666,911
	16,287,105	17,421,381
Capital Assets, net	81,126,736	83,268,207
Other Assets		
Deferred financing costs	987,639	1,086,009
Other	1,405,648	443,847
	2,393,287	1,529,856
Total assets	$ 186,592,396	$ 192,423,531

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Current maturities of long-term debt	$ 3,430,516	$ 2,734,756
Accounts payable	1,497,097	2,831,837
Accrued expenses	9,240,399	7,583,304
Accrued interest	324,919	333,481
Estimated amounts due to third-party payers	588,028	-
Estimated self-insurance costs	1,177,350	1,323,730
Total current liabilities	16,258,309	14,807,108
Long-Term Debt	28,240,366	32,292,243
Total liabilities	44,498,675	47,099,351
Net Assets		
Invested in capital assets, net of related debt	49,455,854	48,241,208
Restricted - expendable for debt service	2,451,478	2,358,189
Unrestricted	90,186,389	94,724,783
Total net assets	142,093,721	145,324,180
Total liabilities and net assets	$ 186,592,396	$ 192,423,531

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2008 and 2007

	2008	2007
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2008 - $8,950,881; 2007 - $8,146,580	$ 143,362,093	$ 134,628,985
Other	2,568,734	1,873,096
Total operating revenue	145,930,827	136,502,081
Operating Expenses		
Salaries and wages	60,486,389	56,330,755
Employee benefits	18,366,508	19,047,675
Purchased services and professional fees	23,908,010	19,985,328
Supplies	23,981,838	23,570,140
Utilities	2,728,482	2,446,889
Other expenses	1,372,738	1,259,182
Depreciation and amortization	9,959,280	9,100,216
Total operating expenses	140,803,245	131,740,185
Operating Income	5,127,582	4,761,896
Nonoperating Revenue (Expense)		
Investment return	(9,097,072)	4,837,992
Interest expense	(1,323,191)	(1,409,352)
Noncapital contribution and grant income	2,062,222	1,785,359
Total nonoperating revenue	(8,358,041)	5,213,999
Excess (Deficiency) of Revenues Over Expenses and Change in Net Assets	(3,230,459)	9,975,895
Net Assets, Beginning of Year	145,324,180	135,348,285
Net Assets, End of Year	$ 142,093,721	$ 145,324,180

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Operating Activities		
Receipts from and on behalf of patients	$ 148,711,324	$ 134,923,916
Payments to suppliers and contractors	(52,601,036)	(46,178,707)
Payments to employees	(77,912,874)	(75,717,909)
Other receipts	2,568,734	1,873,096
Net cash provided by operating activities	20,766,148	14,900,396
Noncapital Financing Activity - grants and gifts	2,062,222	1,785,359
Capital and Related Financing Activities		
Principal paid on long-term obligations	(3,356,117)	(3,211,105)
Interest paid on long-term obligations	(1,331,753)	(1,402,127)
Purchase of Infusion Services Center	(1,000,000)	-
Purchase of capital assets	(7,656,453)	(16,945,587)
Net cash used in capital and related financing activities	(13,344,323)	(21,558,819)
Investing Activities		
Interest and dividends	2,208,139	3,261,977
Proceeds from disposition of investments	5,265,443	9,046,061
Purchase of investments	(16,820,781)	(1,276,626)
Net cash provided by (used in) investing activities	(9,347,199)	11,031,412
Increase in Cash and Cash Equivalents	136,848	6,158,348
Cash and Cash Equivalents, Beginning of Year	26,055,988	19,897,640
Cash and Cash Equivalents, End of Year	$ 26,192,836	$ 26,055,988
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 5,127,582	$ 4,761,896
Depreciation and amortization	9,959,280	9,100,216
Provision for uncollectible accounts	8,950,881	8,146,580
Changes in operating assets and liabilities		
Patient accounts receivable	(10,525,864)	(5,842,584)
Supplies	(146,783)	46,082
Prepaid expenses and other assets	(1,014,454)	(907,925)
Estimated amounts due from third-party payers	6,924,214	(2,009,065)
Accounts payable and accrued expenses	1,491,292	1,605,196
Net cash provided by operating activities	$ 20,766,148	$ 14,900,396
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ -	$ 279,883
Capital asset acquisitions included in accounts payable	-	1,592,299

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Notes to Financial Statements
December 31, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Good Samaritan Hospital (Hospital) is an acute care hospital located in Vincennes, Indiana. The Hospital is a component unit of Knox County, Indiana (County) and the Board of County Commissioners appoints members to the Board of Governors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Knox County area.

The Good Samaritan Hospital Foundation (Foundation) is a significant blended component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and 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.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions, principally federal and state grants, are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with 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 disclosure 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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. The reclassifications had no effect on the changes in net assets.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the two preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method (FIFO) or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

	Years
Land improvements	5 - 25
Buildings and leasehold improvements	5 - 40
Equipment	5 - 20

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2008	2007
Interest costs capitalized	$ 120,000	$ 195,000
Interest costs charged to expense	1,323,191	1,409,352
Total interest incurred	$ 1,443,191	$ 1,604,352

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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 outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Foregone charges for charity care approximated $8,240,000 for 2008 and $5,240,000 for 2007.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- *Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

  Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The payment methodologies are similar to those prescribed by the Medicare program more fully described above.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive DSH payments. The amounts of these additional DSH funds are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. DSH payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized approximately $1,340,000 of net patient service revenue related to the DSH program for the year ended December 31, 2008 and $3,500,000 December 31, 2007. The Hospital recognized receivables from this program approximating $7,300,000 at December 31, 2007 for various Indiana state fiscal years, which end June 30 each year.

In May of 2007, the Centers for Medicare and Medicaid issued a final ruling that may change the State of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, Congress issued a one year moratorium on the ruling, which was scheduled to expire in May 2008. In anticipation of the Moratorium expiration, the State of Indiana accelerated payments through state fiscal year 2008. A condition of the accelerated payments may result in a payback of the DSH funds. As such, it is reasonably possible estimates associated with the DSH program could change materially in the near term.

Related to the May 2007 moratorium and various other governmental changes, management cannot reasonably estimate the state fiscal year 2009 Medicaid DSH payments. As such, no receivable at December 31, 2008 was recognized.

Effective January 1, 2008, the State of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future DSH payments may also be negatively affected.

Approximately 56% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2008 and 54% for the year ended December 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds are deposited in approved financial institutions in the event of financial institution failures.

At December 31, 2008, approximately $53,200,000 of the Hospital's bank balances are covered by the PDIF or FDIC and approximately $2,400,000 of deposits in investment accounts are insured by other sources.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2008 and 2007, the Hospital had the following investments and maturities:

2008

Type	Fair Value	Maturities in Years: Less than 1	Maturities in Years: 1-5
Mutual funds	$ 21,724,626	$ 21,724,626	$ -
Certificates of deposit	26,341,298	18,466,520	7,874,778
Money market mutual funds	21,004,294	21,004,294	
	$ 69,070,218	$ 61,195,440	$ 7,874,778

2007

Type	Fair Value	Maturities in Years: Less than 1	Maturities in Years: 1-5
Mutual funds	$ 31,904,895	$ 31,904,895	$ -
Certificates of deposit	22,749,726	17,082,815	5,666,911
Money market mutual funds	17,566,257	17,566,257	-
	$ 72,220,878	$ 66,553,967	$ 5,666,911

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy provides guidance to invest approximately 70% of its investment portfolio in fixed income securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's policy provides guidance to invest in fixed income investments in U.S. Government bonds, bank certificates of deposits, and U.S. Treasury bonds among other government agencies. Such investments are to be insured by the U.S. Government or covered by applicable Federal and State Insurance programs.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy provides investments are to be maintained in insured deposits.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer, however, the PDIF described above mitigates the concentration of credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet as follows:

	2008	2007
Carrying value		
Deposits	$ 7,640,021	$ 4,004,016
Investments	69,070,218	72,220,878
	$ 76,710,239	$ 76,224,894
Included in the following balance sheet captions		
Cash and cash equivalents	$ 26,192,836	$ 26,055,988
Short-term investments	31,778,820	30,389,336
Restricted cash and investments - current	2,451,478	2,358,189
Internally designated	8,412,327	11,754,470
Noncurrent cash and investments	7,874,778	5,666,911
	$ 76,710,239	$ 76,224,894

Investment Return

Investment return for the years ended December 31, 2008 and 2007 consisted of:

	2008	2007
Interest and dividend income	$ 2,208,139	$ 3,261,977
Realized gains from sales of investments	632,742	1,449,389
Net increase (decrease) in fair value of investments	(11,937,953)	126,626
	$ (9,097,072)	$ 4,837,992

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2008 and 2007 consisted of:

	2008	2007
Medicare	$ 6,536,611	$ 5,554,647
Medicaid	1,564,103	1,294,401
Other third-party payers	9,385,381	9,419,976
Patients	10,425,277	9,113,719
	27,911,372	25,382,743
Less allowance for uncollectible accounts	6,850,000	6,100,000
	$ 21,061,372	$ 19,282,743

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2008 was:

	2008				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,462,638	$ 249,091	$ -	$ -	$ 5,711,729
Land improvements	2,832,130	-	(355)	1,858,642	4,690,417
Buildings and leasehold improvements	67,233,570	-	(7,057)	6,918,450	74,144,963
Equipment	118,069,343	8,942	(1,135,052)	6,335,811	123,279,044
Construction in progress	9,246,374	7,398,420	-	(15,112,903)	1,531,891
	202,844,055	7,656,453	(1,142,464)	-	209,358,044
Less accumulated depreciation					
Land improvements	2,466,468	127,937	(355)	-	2,594,050
Buildings and leasehold improvements	36,139,019	2,152,184	(7,057)	-	38,284,146
Equipment	80,970,361	7,517,803	(1,135,052)	-	87,353,112
	119,575,848	9,797,924	(1,142,464)	-	128,231,308
Capital assets, net	$ 83,268,207	$ (2,141,471)	$ -	$ -	$ 81,126,736

	2007				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,364,700	$ 335,938	$ -	$ (238,000)	$ 5,462,638
Land improvements	2,808,330	7,885	(12,545)	28,460	2,832,130
Buildings and leasehold improvements	65,987,690	140,987	(698,247)	1,803,140	67,233,570
Equipment	111,353,668	2,496,113	(1,981,537)	6,201,099	118,069,343
Construction in progress	1,010,070	16,031,003	-	(7,794,699)	9,246,374
	186,524,458	19,011,926	(2,692,329)	-	202,844,055
Less accumulated depreciation					
Land improvements	2,390,185	82,167	(5,884)	-	2,466,468
Buildings and leasehold improvements	34,699,732	2,032,746	(593,459)	-	36,139,019
Equipment	76,039,649	7,023,698	(2,092,986)	-	80,970,361
	113,129,566	9,138,611	(2,692,329)	-	119,575,848
Capital assets, net	$ 73,394,892	$ 9,873,315	$ -	$ -	$ 83,268,207

There were no commitments for construction in progress projects at December 31, 2008.

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. In addition, the Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $200,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2008 and 2007 is summarized as follows:

	2008	2007
Balance, beginning of year	$ 1,323,730	$ 870,000
Current year claims incurred and changes in estimates for claims incurred in prior years	12,553,971	11,276,775
Claims and expenses paid	(12,700,351)	(10,823,045)
Balance, end of year	$ 1,177,350	$ 1,323,730

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended December 31, 2008:

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	$ 14,014,584	$ -	$ 1,233,959	$ 12,780,625	$ 1,350,000
Lease revenue bonds payable, 2004 (b)	15,897,841	-	707,871	15,189,970	710,000
Capital lease obligations	5,114,574	-	1,414,287	3,700,287	1,370,516
Total long-term debt	$ 35,026,999	$ -	$ 3,356,117	$ 31,670,882	$ 3,430,516

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	$ 15,183,542	$ -	$ 1,168,958	$ 14,014,584	$ 640,000
Lease revenue bonds payable, 2004 (b)	16,600,712	-	702,871	15,897,841	685,000
Capital lease obligations	6,173,967	279,883	1,339,276	5,114,574	1,409,756
Total long-term debt	$ 37,958,221	$ 279,883	$ 3,211,105	$ 35,026,999	$ 2,734,756

(a) The lease revenue refunding bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of $21,270,000 dated September 1, 2002, which bear interest at 1.40% to 5.25%. The Bonds are payable in semi-annual installments through July 1, 2017. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the balance sheet.

Upon issuance and delivery of the Bonds, the Hospital defeased its outstanding 1993 bonds in the total principal amount of $18,675,000. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 1993 bonds at the time of the defeasance. Accordingly, the 1993 bonds, aggregating $12,990,000 at December 31, 2008 and $14,070,000 at December 31, 2007, remain outstanding, but are excluded from the Hospital's balance sheet.

The debt service requirements as of December 31, 2008, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2009	$ 1,896,961	$ 1,350,000	$ 546,961
2010	1,896,705	1,400,000	496,705
2011	1,897,405	1,455,000	442,405
2012	1,900,165	1,515,000	385,165
2013	1,898,185	1,575,000	323,185
2014 - 2018	6,644,261	5,485,625	1,158,636
	$ 16,133,682	$ 12,780,625	$ 3,353,057

(b) The lease revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of $17,210,000 dated February 1, 2004, which bear interest at 2.00% to 5.00%. The Bonds are payable in semi-annual installments through January 15, 2024. The Hospital is required to make semi-annual deposits to the debt service fund held by the trustee. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the balance sheet.

The debt service requirements as of December 31, 2008, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2009	$ 1,354,956	$ 710,000	$ 644,956
2010	1,349,913	725,000	624,913
2011	1,357,469	755,000	602,469
2012	1,347,375	770,000	577,375
2013	1,354,575	805,000	549,575
2014 - 2018	14,203,794	11,424,970	2,778,824
	$ 20,968,082	$ 15,189,970	$ 5,778,112

Capital Lease Obligations

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2008 totaled $11,013,323, net of accumulated depreciation of $3,352,761. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.20% to 8.25% together with the present value of the future minimum lease payments as of December 31, 2008:

Year Ending December 31,	
2009	$ 1,508,270
2010	1,120,529
2011	947,757
2012	362,985
Total minimum lease payments	3,939,541
Less amount representing interest	239,254
Present value of future minimum lease payments	$ 3,700,287

Note 9: Restricted and Designated Net Assets

At December 31, restricted expendable net assets were available for the following purposes:

	2008	2007
Debt service	$ 2,451,478	$ 2,358,189

At December 31, 2008, approximately $8,400,000 of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion, later use these net assets for other purposes.

Note 10: Pension Plan

The Hospital contributes to a defined-contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The current contributions rate is 7% of the first $9,999 and 10% thereafter of annual covered payroll for employees hired prior to January 1, 2002. Employees hired January 1, 2002 or later will receive 7% of annual earnings (annual earnings exclude overtime and bonus payments). Employer contributions to the plan in 2008 and 2007 was $3,958,390 and $3,834,232, respectively.

Note 11: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital currently has certain cases outstanding and management believes that the financial statements will not be materially affected, in the event of an adverse outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: Business Acquisition

Effective October 31, 2008, the Hospital acquired the Medical Center of Vincennes Infusion Services (Center) for a total cost $1,000,000, which was paid in cash. Since that date, the result of the Center's operations have been included in the financial statements.

An intangible asset was recognized in this transaction, which amounted to approximately $995,000. The intangible asset acquired is subject to amortization and is deemed to have a weighted-average useful life of approximately ten years.

Note 13: Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts that could negatively impact the Hospital's ability to maintain sufficient liquidity.