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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, 2009 to December 31, 2009



FILED
05/25/2010

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Timothy M. Schreeg	01-01-09 to 12-31-10
Treasurer	Jeffrey D. Webb	01-01-09 to 12-31-10
Chairman of the Hospital Board	Bruce Wood	01-01-09 to 12-31-10
President of the Board of County Commissioners	Kendell Culp	01-01-09 to 12-31-10



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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 business-type activities, and the aggregate discretely presented component unit of the Jasper County Hospital (Hospital) as of and for the year ended December 31, 2009, which collectively comprise the Hospital's basic financial statements 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over reporting. 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.

In our opinion, based on our audit, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2009, 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 of America.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

STATE BOARD OF ACCOUNTS

April 1, 2010

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, 2009. 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, 2009 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 decreased by \$1,152,860 or 6% as a result of this year's operations. Net Patient Service Revenue decreased by \$1,545,567 or 6% while total operating expenses increased by \$1,029,693 or 3%.

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>2009</u>	<u>2008</u>
Current Assets	10,892,925	15,707,948
Assets limited as to use	2,606,353	892,758
Capital assets	7,640,045	5,424,255
Other Assets	<u>395,312</u>	<u>409,686</u>
Total Assets	<u>21,534,635</u>	<u>22,434,647</u>
Current Liabilities	3,299,688	3,025,107
Long-term debt, net of current maturities	<u>24,522</u>	<u>46,255</u>
Total Liabilities	<u>3,324,210</u>	<u>3,071,362</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	7,567,599	5,321,771
Restricted	1,771,466	1,770,364
Unrestricted	<u>8,871,360</u>	<u>12,271,150</u>
Total Net Assets	<u>18,210,425</u>	<u>19,363,285</u>

Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenue		
Net patient service revenue	28,694,752	30,240,319
Other Revenues	4,659,191	4,066,338
Other Nonoperating Income/(Loss)	<u>(62,681)</u>	<u>152,997</u>
Total Revenues	<u>33,291,262</u>	<u>34,459,654</u>
Expenses:		
Salaries and Benefits	20,946,094	19,927,634
Medical Professional Fees	2,656,693	2,764,011
Other Professional Fees	1,423,764	1,441,278
Medical supplies and drugs	4,862,224	4,915,643
Other supplies	696,569	458,459
Insurance	539,190	691,817
Depreciation and amortization	493,001	541,702
Other	<u>2,993,666</u>	<u>3,027,646</u>
Total Expenses	<u>34,611,201</u>	<u>33,767,790</u>
Excess of revenues over expenses before contributions	(1,319,939)	691,864
Capital grants and contributions	167,079	177,002
Sale of farm	--	1,112,545
Excess DSH distributions	<u>--</u>	<u>3,254,466</u>
Increase (Decrease) in Net Assets	<u>(1,152,860)</u>	<u>5,235,877</u>

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year ended December 31, 2009 the Hospital had approximately \$7,640,045 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, 2009.

Capital Assets at Year-end Net of Depreciation

	<u>2009</u>	<u>2008</u>
Land	53,965	53,965
Land Improvements	1,844,495	404,658
Buildings	8,131,062	6,604,619
Construction In Progress	1,200,755	1,728,116
Equipment	<u>5,609,914</u>	<u>5,443,441</u>
Total	16,840,191	14,234,799
Less Accumulated Depreciation	<u>9,200,146</u>	<u>8,810,544</u>
Capital Assets (Net)	7,640,045	5,424,255

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 \$72,446 in loans and capital leases outstanding, versus \$128,788 at the end of the previous year which represents a decrease of 44%. The table below documents the debt held and its use:

Outstanding Debt at Year End

	<u>2009</u>	<u>2008</u>
Insurance Premium Financing	24,199	26,304
Automobile Financing	9,937	13,326
Capital Leases	<u>38,310</u>	<u>89,158</u>
Total Debt	72,446	128,788

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 the first phases of an addition/renovation/office building project. The completed site work and new office building totaled approximately \$2.9 million. Estimates prepared by architects engaged for the project total about \$15 million for the remaining portion of the project. The Hospital intends to finance the entire remaining cost of the project, but Construction in Progress has been funded through cash reserves. Financing has been approved by the U.S. Department of Agriculture, Office of Rural Development in the form of a 40 year, \$15 million loan.

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
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2009

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 3,419,321	\$ 195,916	\$ 3,615,237
Short-term investments	-	524,313	524,313
Patient accounts receivable, net of estimated uncollectibles of \$2,394,748	5,488,838	-	5,488,838
Supplies and other current assets	1,264,537	-	1,264,537
Noncurrent cash and investments:			
Internally designated	2,606,353	-	2,606,353
Capital assets:			
Land and construction work in progress	1,254,720	-	1,254,720
Depreciable capital assets, net of accumulated depreciation	6,385,325	-	6,385,325
Other assets	<u>395,312</u>	<u>-</u>	<u>395,312</u>
 Total assets	 <u>\$ 20,814,406</u>	 <u>\$ 720,229</u>	 <u>\$ 21,534,635</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 47,924	\$ -	\$ 47,924
Accounts payable and accrued expenses	2,407,927	-	2,407,927
Estimated third-party payor settlements	200,000	-	200,000
Other current liabilities	643,837	-	643,837
Long-term debt, net of current maturities	<u>24,522</u>	<u>-</u>	<u>24,522</u>
 Total liabilities	 <u>3,324,210</u>	 <u>-</u>	 <u>3,324,210</u>
Net assets:			
Invested in capital assets, net of related debt	7,567,599	-	7,567,599
Restricted:			
Expendable for capital acquisitions	272,728	-	272,728
Expendable for farm expenditures	1,424,139	-	1,424,139
Expendable for specific operating activities	74,599	-	74,599
Unrestricted	<u>8,151,131</u>	<u>720,229</u>	<u>8,871,360</u>
 Total net assets	 <u>17,490,196</u>	 <u>720,229</u>	 <u>18,210,425</u>
 Total liabilities and net assets	 <u>\$ 20,814,406</u>	 <u>\$ 720,229</u>	 <u>\$ 21,534,635</u>

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

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2009

	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 28,694,752	\$ -	\$ 28,694,752
Other	<u>4,549,112</u>	<u>110,079</u>	<u>4,659,191</u>
Total operating revenues	<u>33,243,864</u>	<u>110,079</u>	<u>33,353,943</u>
Operating expenses:			
Salaries and benefits	20,946,094	-	20,946,094
Medical professional fees	2,656,693	-	2,656,693
Other professional fees	1,423,764	-	1,423,764
Medical supplies and drugs	4,862,224	-	4,862,224
Insurance	539,190	-	539,190
Other supplies	696,569	-	696,569
Depreciation and amortization	493,001	-	493,001
Other	<u>2,827,890</u>	<u>165,776</u>	<u>2,993,666</u>
Total operating expenses	<u>34,445,425</u>	<u>165,776</u>	<u>34,611,201</u>
Operating loss	<u>(1,201,561)</u>	<u>(55,697)</u>	<u>(1,257,258)</u>
Nonoperating revenues (expenses):			
Investment income	46,223	-	46,223
Interest expense	(5,698)	-	(5,698)
Restricted funds nonoperating expense	(161,999)	-	(161,999)
Loss on sale of equipment	(36,193)	-	(36,193)
Other	<u>-</u>	<u>94,986</u>	<u>94,986</u>
Total nonoperating revenues (expenses)	<u>(157,667)</u>	<u>94,986</u>	<u>(62,681)</u>
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	(1,359,228)	39,289	(1,319,939)
Capital grants and contributions	<u>167,079</u>	<u>-</u>	<u>167,079</u>
Increase (decrease) in net assets	<u>(1,192,149)</u>	<u>39,289</u>	<u>(1,152,860)</u>
Net assets beginning of the year	18,682,345	680,940	19,363,285
Net assets end of the year	<u>\$ 17,490,196</u>	<u>\$ 720,229</u>	<u>\$ 18,210,425</u>

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

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2009

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 29,480,143
Payments to suppliers and contractors	(12,914,838)
Payments to employees	(20,839,394)
Other receipts and payments, net	<u>4,773,734</u>
Net cash provided by operating activities	<u>499,645</u>
Cash flows from noncapital financing activities:	
Other	<u>94,986</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	167,079
Acquisition and construction of capital assets	(2,892,610)
Proceeds from loan payable	133,093
Principal paid on long-term debt	(189,434)
Interest paid on long-term debt	<u>(5,698)</u>
Net cash used by capital and related financing activities	<u>(2,787,570)</u>
Cash flows from investing activities:	
Interest and dividends on investments	46,224
Purchase of investments	<u>(95,707)</u>
Net cash used by investing activities	<u>(49,483)</u>
Net decrease in cash and cash equivalents	(2,242,422)
Cash and cash equivalents at beginning of year	<u>8,464,012</u>
Cash and cash equivalents at end of year	<u>\$ 6,221,590</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 3,615,237
Restricted cash and cash equivalents	<u>2,606,353</u>
Total cash and cash equivalents	<u>\$ 6,221,590</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,257,258)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	493,001
Patient accounts receivable	895,470
Supplies and other current assets	59,243
Increase in current liabilities:	
Accounts payable and accrued expenses	212,567
Other current liabilities	<u>96,622</u>
Net cash provided in operating activities	<u>\$ 499,645</u>
Noncash investing, capital, and financing activities:	
The Hospital included \$14,375 of amortization in Depreciation and Amortization Expense.	

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.

On January 8, 1982 the Board of County Commissioners of Jasper County, upon written request of the Hospital Board of Trustees created the Jasper County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The 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 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 financial statements of the Foundation may be obtained at 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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation.

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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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.

Open-end mutual funds are reported at fair value.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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	5-10 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 total interest expense incurred by the Hospital during the current year was \$0.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital.

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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

I. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

J. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-first-out) or market.

K. 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 days 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 their liability. The Hospital pays accumulated paid hours off upon employee termination.

L. 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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2009, the Hospital had deposit balances in the amount of \$6,221,589.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2009, the Hospital Foundation had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Mutual Bond Funds	\$ 524,313	\$ 524,313	\$ -	\$ -	\$ -

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

The Hospital Foundation has not adopted a formal investment policy for interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk for investments.

The Hospital Foundation has not adopted a policy for credit risk.

Neither the Hospital nor the Hospital Foundation maintains investments subject to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

The Hospital Foundation has not adopted a policy for the concentration of credit risk.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

The Hospital Foundation has not adopted a formal policy in regards to foreign currency risk.

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:

Receivable from patients and their insurance carriers	\$ 5,051,395
Receivable from Medicare	2,276,154
Receivable from Medicaid	<u>556,037</u>
 Total patient accounts receivable	 7,883,586
 Less allowance for uncollectible amounts	 <u>2,394,748</u>
 Patient accounts receivable, net	 <u><u>\$ 5,488,838</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,373,867
Payable to suppliers	713,730
Other	<u>320,330</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 2,407,927</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2009, 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	\$ 53,965	\$ -	\$ -	\$ 53,965
Construction in progress	<u>1,728,116</u>	<u>2,438,922</u>	<u>2,966,283</u>	<u>1,200,755</u>
 Total capital assets, not being depreciated	 <u>1,782,081</u>	 <u>2,438,922</u>	 <u>2,966,283</u>	 <u>1,254,720</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Land improvements	404,658	1,439,837	-	1,844,495
Buildings and improvements	6,604,617	1,526,445	-	8,131,062
Equipment	<u>5,443,443</u>	<u>371,980</u>	<u>208,509</u>	<u>5,606,914</u>
Totals	<u>12,452,718</u>	<u>3,338,262</u>	<u>208,509</u>	<u>15,582,471</u>
Less accumulated depreciation for:				
Land improvements	366,512	11,451	-	377,963
Buildings and improvements	4,695,716	111,138	-	4,806,854
Equipment	<u>3,748,316</u>	<u>356,037</u>	<u>92,024</u>	<u>4,012,329</u>
Totals	<u>8,810,544</u>	<u>478,626</u>	<u>92,024</u>	<u>9,197,146</u>
Total capital assets, being depreciated, net	<u>3,642,174</u>	<u>2,859,636</u>	<u>116,485</u>	<u>6,385,325</u>
Total primary government capital assets, net	<u>\$ 5,424,255</u>	<u>\$ 5,298,558</u>	<u>\$ 3,082,768</u>	<u>\$ 7,640,045</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Expected Project Costs</u>	<u>Expended to December 31, 2009</u>
Addition/renovation	<u>\$ 16,310,755</u>	<u>\$ 1,200,755</u>

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$1,258,396. The following is a schedule by years of future minimum rental payments as of year end:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2010	\$ 1,160,793
2011	1,122,316
2012	984,126
2013	377,934
2014	<u>302,954</u>
 Total	 <u>\$ 3,948,123</u>

2. Capital Leases

The Hospital has entered into various capital leases for a 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:

2010	\$ 22,551
2011	13,353
2012	<u>6,327</u>
 Total minimum lease payments	 42,231
 Less amount representing interest	 <u>3,921</u>
 Present value of net minimum lease payments	 <u>\$ 38,310</u>

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

Equipment	\$ 174,450
Accumulated depreciation	<u>85,060</u>
 Total	 <u>\$ 89,390</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 \$956 are as follows:

2010	\$ 28,416
2011	4,217
2012	<u>2,458</u>
 Total	 <u>\$ 35,091</u>

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, 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	\$ 89,158	\$ -	\$ 50,848	\$ 38,310	\$ 18,220
Notes payable	<u>39,630</u>	<u>133,093</u>	<u>138,588</u>	<u>34,135</u>	<u>27,834</u>
Total long-term liabilities	<u>\$ 128,788</u>	<u>\$ 133,093</u>	<u>\$ 189,436</u>	<u>\$ 72,445</u>	<u>\$ 46,054</u>

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 48 percent and 12 percent, respectively, of the Hospital's net patient revenue for the year ended 2009, and 47 percent and 13 percent, respectively, of the Hospital's net patient revenue for the year ended 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, 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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Charity Care

Charges removed from net revenue under the Hospital's charity care policy were \$107,792 for 2009.

I. Internally Designated Assets

Non-current 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	\$ 272,728
Board designation:	
Cash and cash equivalents	<u>2,333,625</u>
Total internally designated	<u><u>\$ 2,606,353</u></u>

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; 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.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

	2009	2008
Unpaid claims, beginning of fiscal year	\$ 317,977	\$ 225,657
Incurred claims and changes in estimates	2,732,289	2,730,418
Claim payments	(2,729,936)	(2,638,098)
Unpaid claims, end of fiscal year	\$ 320,330	\$ 317,977

B. Subsequent Events

During February 2010, the Hospital received and opened bids for the construction of an addition and renovation project. The Hospital also has received approval for a \$15 million loan from the United States Department of Agriculture Office of Rural Development on April 12, 2010.

C. 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 2009, other operating revenues in the accompanying statements of operations were increased by \$1,391,961, to reflect changes in the estimated settlements for certain prior years.

D. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group 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 Financial Group, 1300 South Clinton Street, Fort Wayne, IN 46801, Ph. 800-454-6265.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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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 2 1/2% 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 2009 were accrued at year end in the amount of \$355,149.

JASPER COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2010, with Bruce Wood, President of the Board of County Commissioners, Matt Robertson, Board member; and Jeffrey D. Webb, Treasurer. Our audit disclosed no material items that warrant comment at this time.