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February 24, 2011

Board of Directors
Good Samaritan Hospital
520 S. Seventh Street
Vincennes, IN 47591

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. 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 the Good Samaritan Hospital, as of December 31, 2009 and the results of its operations for the period 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

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Good Samaritan Hospital
A Component Unit of Knox County, Indiana

Accountants' Report and Financial Statements

December 31, 2009 and 2008

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
December 31, 2009 and 2008

Contents

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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, 2009 and 2008, 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, 2009 and 2008, 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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

March 31, 2010

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Management's Discussion and Analysis
December 31, 2009 and 2008

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, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and investments increased in 2009 and 2008 by $11,894,399 (16%) and $485,345 (1%), respectively.
- The Hospital reported operating income in 2009 and 2008 of $1,526,337 and $5,127,582, respectively. The operating income in 2009 decreased by 70.2% over the operating income reported in 2008, and 2008 increased by 7.7% compared to 2007.
- Net nonoperating revenues increased by $16,604,239 in 2009 compared to 2008, primarily attributable to investment gains. In 2008, nonoperating revenues decreased by $13,572,040 compared to 2007.

The total change in net assets in 2009 is an increase of $9,772,535 compared to a decrease of $(3,230,459) in 2008.

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 increased by $9,772,535 in 2009 over 2008 and net assets decreased by $(3,230,459) in 2008 over 2007 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	$ 19,873,300	$ 21,061,372	$ 19,282,743
Other current assets	73,999,051	65,723,896	70,921,344
Capital assets, net	77,528,192	81,126,736	83,268,207
Other noncurrent assets	21,476,709	18,680,392	18,951,237
Total assets	$ 192,877,252	$ 186,592,396	$ 192,423,531
Liabilities			
Long-term debt	$ 28,355,054	$ 31,670,882	$ 35,026,999
Other current and long-term liabilities	12,655,942	12,827,793	12,072,352
Total liabilities	41,010,996	44,498,675	47,099,351
Net Assets			
Invested in capital assets, net of related debt	49,173,138	49,455,854	48,241,208
Restricted expendable	2,517,632	2,451,478	2,358,189
Unrestricted	100,175,486	90,186,389	94,724,783
Total net assets	151,866,256	142,093,721	145,324,180
Total liabilities and net assets	$ 192,877,252	$ 186,592,396	$ 192,423,531

A significant change in the Hospital's assets in 2009 is the increase in cash and investments of $11,894,399 (16%) as compared to an increase in 2008 of $485,345 (1%). This increase in cash and investments resulted from successful operations as well as recovery of market gains. Net patient service revenues decreased in 2009 by $1,969,655 (1.4%) as compared to 2008, net patient accounts receivable decreased by $1,188,072 (5.6%) or three days of revenue at December 31, 2009 versus December 31, 2008. In 2008, patient accounts receivable increased $1,778,629 (9.2%) and net patient service revenues increased in 2008 by $8,733,108 (6.5%).

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by $9,772,535 (6.9%) compared to a decrease in net assets during 2008 of $3,230,459 (2.2%), as shown in Table 2. This 2009 increase is made up of several different components and represents an increase of 402.5% compared with the decrease in net assets for 2008 of $3,230,459 (2.2%). The 2008 decrease in net assets represents a decline of 132.4% compared to the increase in net assets for 2007 of $9,975,895 (7.4%).

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenue			
Net patient service revenue	$ 141,392,438	$ 143,362,093	$ 134,628,985
Other operating revenue	2,260,249	2,568,734	1,873,096
Total operating revenue	143,652,687	145,930,827	136,502,081
Operating Expenses			
Salaries and wages and employee benefits	81,315,677	78,852,897	75,378,430
Purchased services and professional fees	23,485,895	23,908,010	19,985,328
Depreciation and amortization	10,418,128	9,959,280	9,100,216
Other operating expenses	26,906,650	28,083,058	27,276,211
Total operating expenses	142,126,350	140,803,245	131,740,185
Operating Income	1,526,337	5,127,582	4,761,896
Nonoperating Revenue (Expenses)			
Investment income	7,558,090	(9,097,072)	4,837,992
Contributions, net of program expenses	2,012,282	2,062,222	1,785,359
Interest expense	(1,324,174)	(1,323,191)	(1,409,352)
Total nonoperating revenue (expense)	8,246,198	(8,358,041)	5,213,999
Increase (Decrease) in Net Assets	$ 9,772,535	$ (3,230,459)	$ 9,975,895

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 2009 decreased by $3,601,245 (70.2%) as compared to 2008. Operating income for 2008 increased by $365,686 (7.7%) as compared to 2008. The primary components of the fluctuation in operating income are:

- An increase in salaries, benefits and wages for the Hospital's employees of $2,462,780 (3.1%) in 2009 compared to an increase in 2008 of $3,474,467 (4.6%).
- An increase in depreciation and amortization of $458,848 (4.6%) in 2009 compared to an increase of $859,064 (9.4%) in 2008.
- A decrease in net patient service revenue of $1,969,655 (1.4%) for 2009.
- These increases were offset by a decrease in purchased services and professional fees of $422,115 (1.8%) in 2009 compared to an increase of $3,922,682 (19.6%) in 2008.

Net patient service revenue decreased because of an increase in Medicare and Medicaid contractual rates from 2008 to 2009. This decrease resulted primarily from these increased contractuals along with charity and bad debt write-offs caring for the indigent in 2009.

Employee salaries and wages and benefits increased in 2009 and 2008 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. Additionally, the Hospital recruited a gastroenterologist and an orthopedic surgeon in late 2009 to ensure continued needed services in our service area.

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 2008, medical supplies and prescription drug costs totaled $23,981,838 (17.0%) of total operating expenses. In 2009, they totaled $23,189,820 (16.3%) of total operating expenses, a decrease of $792,018 (3.3%) over 2008. Some of the major factors contributing to 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.

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 2009 as compared to 2008 and 2007, except investment income. The Hospital recognized an increase in its investment return in 2009 compared to 2008, resulting primarily from more favorable earnings on equity funds held. Total investment return for 2009 was a positive return of $7,558,090 compared to a negative return in 2008 of $9,097,072. Contribution and grant income in 2009 was $2,012,282 compared to $2,062,222 in 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 2009 and 2008, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009 and 2008, the Hospital had $77,528,192 and $81,126,736 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2009 and 2008, the Hospital purchased new capital assets costing $6,614,645 and $7,656,453, respectively.

During 2009, the Hospital nearly completed a significant renovation to the critical care department and will begin renovation of the intermediate care department in early 2010.

Debt

At December 31, 2009 and 2008, the Hospital had $28,355,054 and $31,670,882, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. Except for new capital leases of $98,580 initiated in 2009, the Hospital issued no new debt in 2009 or 2008. 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

Duke Energy has made significant progress in building a two and a half billion dollar coal gasification plant, which has created 1,000 jobs for the next 2 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, 2009 and 2008

Assets

	2009	2008
Current Assets		
Cash and cash equivalents	$ 7,607,683	$ 26,192,836
Short-term investments	59,165,607	31,778,820
Restricted cash - current	2,517,632	2,451,478
Patient accounts receivable, net of allowance; 2009 - $8,240,000; 2008 - $6,850,000	19,873,300	21,061,372
Other receivables	808,985	1,060,927
Supplies	1,053,918	1,148,375
Prepaid expenses and other	2,845,226	3,091,460
Total current assets	93,872,351	86,785,268
Noncurrent Cash and Investments		
Internally designated	9,361,900	8,412,327
Other long-term investments	9,951,816	7,874,778
	19,313,716	16,287,105
Capital Assets, net	77,528,192	81,126,736
Other Assets		
Deferred financing costs	889,270	987,639
Other	1,273,723	1,405,648
	2,162,993	2,393,287
Total assets	$ 192,877,252	$ 186,592,396

Liabilities and Net Assets

	2009	2008
Current Liabilities		
Current maturities of long-term debt	$ 3,193,090	$ 3,430,516
Accounts payable	1,976,466	1,497,097
Accrued expenses	9,009,631	9,240,399
Accrued interest	315,156	324,919
Estimated amounts due to third-party payers	146,911	588,028
Estimated self-insurance costs	1,207,778	1,177,350
Total current liabilities	15,849,032	16,258,309
Long-Term Debt	25,161,964	28,240,366
Total liabilities	41,010,996	44,498,675
Net Assets		
Invested in capital assets, net of related debt	49,173,138	49,455,854
Restricted - expendable for debt service	2,517,632	2,451,478
Unrestricted	100,175,486	90,186,389
Total net assets	151,866,256	142,093,721
Total liabilities and net assets	$ 192,877,252	$ 186,592,396

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2009 - $11,919,577; 2008 - $8,950,881	$ 141,392,438	$ 143,362,093
Other	2,260,249	2,568,734
Total operating revenue	143,652,687	145,930,827
Operating Expenses		
Salaries and wages	62,738,683	60,486,389
Employee benefits	18,576,994	18,366,508
Purchased services and professional fees	23,485,895	23,908,010
Supplies	23,189,820	23,981,838
Utilities	2,286,196	2,728,482
Other expenses	1,430,634	1,372,738
Depreciation and amortization	10,418,128	9,959,280
Total operating expenses	142,126,350	140,803,245
Operating Income	1,526,337	5,127,582
Nonoperating Revenue (Expense)		
Investment return	7,558,090	(9,097,072)
Interest expense	(1,324,174)	(1,323,191)
Noncapital contribution and grant income	2,012,282	2,062,222
Total nonoperating revenue (expense)	8,246,198	(8,358,041)
Excess (Deficiency) of Revenues Over Expenses and Change in Net Assets	9,772,535	(3,230,459)
Net Assets, Beginning of Year	142,093,721	145,324,180
Net Assets, End of Year	$ 151,866,256	$ 142,093,721

Good Samaritan Hospital
A Component Unit of Knox County, Indiana
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	$ 142,832,452	$ 148,711,324
Payments to suppliers and contractors	(50,833,539)	(52,601,036)
Payments to employees	(81,398,296)	(77,912,874)
Other receipts	2,260,249	2,568,734
Net cash provided by operating activities	12,860,866	20,766,148
Noncapital Financing Activity - grants and gifts	2,012,282	2,062,222
Capital and Related Financing Activities		
Principal paid on long-term obligations	(3,414,408)	(3,356,117)
Interest paid on long-term obligations	(1,333,937)	(1,331,753)
Purchase of Infusion Services Center	-	(1,000,000)
Proceeds from sale of capital assets	31,558	-
Purchase of capital assets	(5,918,421)	(7,656,453)
Net cash used in capital and related financing activities	(10,635,208)	(13,344,323)
Investing Activities		
Interest and dividends	2,138,425	2,208,139
Proceeds from disposition of investments	1,180,090	5,265,443
Purchase of investments	(26,141,608)	(16,820,781)
Net cash used in investing activities	(22,823,093)	(9,347,199)
Increase (Decrease) in Cash and Cash Equivalents	(18,585,153)	136,848
Cash and Cash Equivalents, Beginning of Year	26,192,836	26,055,988
Cash and Cash Equivalents, End of Year	$ 7,607,683	$ 26,192,836
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 1,526,337	$ 5,127,582
Depreciation and amortization	10,418,128	9,959,280
Loss on disposal of capital assets	26,549	-
Provision for uncollectible accounts	11,919,577	8,950,881
Changes in operating assets and liabilities		
Patient and other accounts receivable	(10,479,563)	(10,525,864)
Supplies	94,457	(146,783)
Prepaid expenses and other assets	321,010	(1,014,454)
Estimated amounts due from/to third-party payers	(441,117)	6,924,214
Accounts payable and accrued expenses	(524,512)	1,491,292
Net cash provided by operating activities	$ 12,860,866	$ 20,766,148
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ 98,580	$ -
Capital asset acquisitions included in accounts payable	597,644	-

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.

Good Samaritan Hospital Physician Services, Inc. (Physician Services) is also a blended component unit of the Hospital. The primary government appoints a voting majority of Physician Service's board and a financial benefit/burden relationship exists between the Hospital and Physician Services. Although it is legally separate from the Hospital, Physician Services 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, 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 three 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:

	2009	2008
Interest costs capitalized	$ 10,920	$ 120,000
Interest costs charged to expense	1,324,174	1,323,191
Total interest incurred	$ 1,335,094	$ 1,443,191

Intangible Assets

Intangible assets represent assets recognized during a business purchase during 2008. The intangible asset is subject to amortization and is deemed to have a weighted-average useful life of approximately ten years. The amortized cost of the assets was $894,867 and $994,297 at December 31, 2009 and 2008, respectively. The Hospital recognized amortization expense of $99,430 during 2009.

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 $11,630,000 for 2009 and $8,240,000 for 2008.

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.

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Physician Services is in the process of obtaining its exempt status under Section 509 9(a)(3) of the Internal Revenue Code and a similar provision of state law. Physician Services is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through March 31, 2010, which is the date the financial statements were issued.

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 $3,500,000 of net patient service revenue related to the DSH program for the year ended December 31, 2009 and $1,340,000 for the year ended December 31, 2008.

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 49% and 50% for 2009 and 2008, respectively, of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs. 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 that are deposited in approved financial institutions in the event of financial institution failures.

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, 2009 and 2008, the Hospital had the following investments and maturities:

	2009		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 29,164,583	$ 29,164,583	$ -
Money market mutual funds	5,797,273	5,797,273	-
U.S. treasury obligations	774,080	509,265	264,815
U.S. agencies obligations	1,743,659	514,892	1,228,767
	$ 37,479,595	$ 35,986,013	$ 1,493,582

	2008		
		Maturities in Years	
Type	Fair Value	Less Than 1	1-5
Mutual funds	$ 21,724,626	$ 21,724,626	$ -
Money market mutual funds	21,004,294	21,004,294	-
	$ 42,728,920	$ 42,728,920	$ -

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 sheets as follows:

	2009	2008
Carrying value		
Deposits	$ 51,125,043	$ 33,981,319
Investments	37,479,595	42,728,920
	$ 88,604,638	$ 76,710,239
Included in the following balance sheet captions		
Cash and cash equivalents	$ 7,607,683	$ 26,192,836
Short-term investments	59,165,607	31,778,820
Restricted cash and investments - current	2,517,632	2,451,478
Internally designated	9,361,900	8,412,327
Noncurrent cash and investments	9,951,816	7,874,778
	$ 88,604,638	$ 76,710,239

Investment Return

Investment return for the years ended December 31, 2009 and 2008 consisted of:

	2009	2008
Interest and dividend income	$ 2,138,425	$ 2,208,139
Realized gains (losses) from sales of investments	(619,910)	632,742
Net increase (decrease) in fair value of investments	6,039,575	(11,937,953)
	$ 7,558,090	$ (9,097,072)

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, 2009 and 2008 consisted of:

	2009	2008
Medicare	$ 5,141,478	$ 6,536,611
Medicaid	1,678,038	1,564,103
Other third-party payers	8,644,929	9,385,381
Patients	12,648,855	10,425,277
	28,113,300	27,911,372
Less allowance for uncollectible accounts	8,240,000	6,850,000
	$ 19,873,300	$ 21,061,372

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2009 was:

	2009				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,711,729	$ 17,123	$ -	$ -	$ 5,728,852
Land improvements	4,690,417	191,820	-	-	4,882,237
Buildings and leasehold improvements	74,144,963	740,087	-	144,800	75,029,850
Equipment	123,279,044	2,509,700	(2,948,731)	1,117,745	123,957,758
Construction in progress	1,531,891	3,155,915	-	(1,262,545)	3,425,261
	209,358,044	6,614,645	(2,948,731)	-	213,023,958
Less accumulated depreciation					
Land improvements	2,594,050	251,704	-	-	2,845,754
Buildings and leasehold improvements	38,284,146	2,303,792	-	-	40,587,938
Equipment	87,353,112	7,599,586	(2,890,624)	-	92,062,074
	128,231,308	10,155,082	(2,890,624)	-	135,495,766
Capital assets, net	$ 81,126,736	$ (3,540,437)	$ (58,107)	$ -	$ 77,528,192

	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

Construction in progress includes the renovation costs of a patient tower, among other projects. Total commitments related to these projects approximate $1,130,000 at December 31, 2009.

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 2009 and 2008 is summarized as follows:

	2009	2008
Balance, beginning of year	$ 1,177,350	$ 1,323,730
Current year claims incurred and changes in estimates for claims incurred in prior years	11,815,904	12,553,971
Claims and expenses paid	(11,785,476)	(12,700,351)
Balance, end of year	$ 1,207,778	$ 1,177,350

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended December 31, 2009:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Lease revenue refunding bonds payable, 2002 (a)	$ 12,780,625	$ -	$ 1,283,958	$ 11,496,667	$ 1,400,000
Lease revenue bonds payable, 2004 (b)	15,189,970	-	732,871	14,457,099	725,000
Capital lease obligations	3,700,287	98,580	1,397,579	2,401,288	1,068,090
Total long-term debt	$ 31,670,882	$ 98,580	$ 3,414,408	$ 28,355,054	$ 3,193,090

	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

(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 restricted cash in the balance sheets.

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 $11,850,000 at December 31, 2009 and $12,990,000 at December 31, 2008, remain outstanding, but are excluded from the Hospital's balance sheets.

The debt service requirements as of December 31, 2009, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	1,896,795	1,640,000	256,795
2015 - 2017	4,747,466	3,911,667	835,799
	$ 14,236,721	$ 11,496,667	$ 2,740,054

(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, 2009, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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	1,364,106	845,000	519,106
2015 - 2019	6,766,375	4,805,000	1,961,375
2020 - 2024	6,395,412	5,752,099	643,313
	$ 19,935,225	$ 14,457,099	$ 5,478,126

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, 2009 totaled $6,695,190, net of accumulated depreciation of $4,385,969. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.20% to 8.75% together with the present value of the future minimum lease payments as of December 31, 2009:

Year Ending December 31,	
2010	$ 1,166,124
2011	963,836
2012	375,386
2013	9,180
2014	2,296
Total minimum lease payments	2,516,822
Less amount representing interest	115,534
Present value of future minimum lease payments	$ 2,401,288

Note 9: Restricted Net Assets

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

	2009	2008
Debt service	$ 2,517,632	$ 2,451,478

At December 31, 2009, approximately $9,360,000 of unrestricted net assets has been designated by the Hospital's Board of Governors for capital acquisitions. Designated net assets remain under the control of the Board of Governors, 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 Board of Governors. 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 2009 and 2008 was $4,275,472 and $3,958,390, 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: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated 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.