

DURBIN & COMPANY, L.L.P.

Certified Public Accountants

2950 50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors
Johns Community Hospital
Taylor, Texas

We have audited the accompanying statement of financial position of Johns Community Hospital as of December 31, 2008, and the related statements of operations, changes in net assets, and cash flows for the year 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 audit. The financial statements of Johns Community Hospital as of December 31, 2007, were audited by other auditors whose report dated June 2, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Johns Community Hospital as of December 31, 2008, and the results of its operations, changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2009, on our consideration of Johns Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Durbin & Company, L.L.P.
June 6, 2009

JOHNS COMMUNITY HOSPITAL

BALANCE SHEETS

December 31, 2008 and 2007

ASSETS:	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 75,378	\$ 4,154
Assets Whose Use is Limited	47,041	40,138
Patients Accounts Receivable, Net of Allowance	1,927,646	2,302,037
Inventory of Supplies	322,607	332,483
Estimated Third-Party Payor Settlements	<u>305,010</u>	<u>463,105</u>
Total Current Assets	2,677,682	3,141,917
ASSETS WHOSE USE IS LIMITED, Net of Current Portion	60,349	293,064
INVESTMENTS RESTRICTED BY CONTRIBUTORS AND GRANTORS	277,568	385,476
PROPERTY AND EQUIPMENT, NET	4,440,853	5,169,618
PROPERTY HELD FOR SALE	<u>30,150</u>	<u>30,150</u>
Total Assets	<u>\$ 7,486,602</u>	<u>\$ 9,020,225</u>

The accompanying notes are an integral part of these financial statements

JOHNS COMMUNITY HOSPITAL

BALANCE SHEETS

December 31, 2008 and 2007

LIABILITIES AND NET ASSETS:	2008	2007
CURRENT LIABILITIES		
Overdrafts Payable	\$ -	\$ 86,224
Accounts Payable	607,319	987,213
Accrued Payroll, Benefits, and Related Liabilities	424,020	659,128
Current Portion of Long-Term Debt	314,709	311,130
Deferred Revenue	-	4,410
Other Accrued Expenses	68,049	22,864
Total Current Liabilities	1,414,097	2,070,969
LONG-TERM DEBT, NET OF CURRENT PORTION	1,982,325	2,233,200
Total Liabilities	3,396,422	4,304,169
NET ASSETS		
Unrestricted	3,765,606	4,330,580
Temporarily Restricted for Capital Acquisition	2,894	63,796
Permanently Restricted to be Held in Perpetuity	321,680	321,680
Total Net Assets	4,090,180	4,716,056
Total Liabilities and Net Assets	\$ 7,486,602	\$ 9,020,225

The accompanying notes are an integral part of these financial statements

JOHNS COMMUNITY HOSPITAL

STATEMENTS OF OPERATIONS

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:		
Net Patient Service Revenue	\$ 15,872,413	\$ 17,513,580
Contributions	-	46,721
Investment Income	16,324	25,978
Other Revenue	<u>208,483</u>	<u>301,777</u>
Total Revenues, Gains and Other Support	16,097,220	17,888,056
EXPENSES:		
Salaries	7,345,321	7,788,683
Employee Benefits	1,271,708	1,365,015
Professional Fees and Purchased Services	2,179,033	2,026,644
Supplies and Other	2,970,447	2,988,050
Depreciation and Amortization	844,282	699,451
Interest	101,697	78,734
Provision for Bad Debts	<u>1,986,026</u>	<u>3,543,122</u>
Total Expenses	<u>16,698,514</u>	<u>18,489,699</u>
Excess of Expenses over Revenues, Gains, and Other Support	(601,294)	(601,643)
Net Unrealized Gains (Losses) on Investments	(65,879)	18,239
Net Assets Released from Restrictions Used for Purchase of		
Property and Equipment	103,356	66,504
Gain (Loss) on Disposal of Assets	<u>(1,157)</u>	<u>6,500</u>
Decrease in Unrestricted Net Assets	<u>\$ (564,974)</u>	<u>\$ (510,400)</u>

The accompanying notes are an integral part of these financial statements

JOHNS COMMUNITY HOSPITAL
STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
UNRESTRICTED NET ASSETS:		
Excess of Expenses over Revenues, Gains, and Other Support	\$ (601,294)	\$ (601,643)
Net Unrealized Gains (Losses) on Investments	(65,879)	18,239
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	103,356	66,504
Gain (Loss) on Disposal of Assets	<u>(1,157)</u>	<u>6,500</u>
Decrease in Unrestricted Net Assets	(564,974)	(510,400)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	42,454	-
Net Assets Released From Restrictions	<u>(103,356)</u>	<u>(66,504)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(60,902)</u>	<u>(66,504)</u>
Decrease in Net Assets	(625,876)	(576,904)
Net Assets, Beginning of Year	<u>4,716,056</u>	<u>5,292,960</u>
Net Assets, End of Year	<u><u>\$ 4,090,180</u></u>	<u><u>\$ 4,716,056</u></u>

The accompanying notes are an integral part of these financial statements

JOHNS COMMUNITY HOSPITAL**STATEMENTS OF CASH FLOWS****Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in Net Assets	\$ (625,876)	\$ (576,904)
Adjustments to Reconcile Decrease in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	844,282	699,451
Provision for Bad Debts	1,986,026	3,543,122
Net Realized and Unrealized Gains on Investments	(65,879)	18,239
(Increase) Decrease in:		
Patient Accounts Receivable	(1,611,635)	(3,621,986)
Estimated Third-Party Payor Settlements	158,095	(561,362)
Inventory of Supplies	9,876	(36,072)
Increase (Decrease) in:		
Accounts Payable	(379,894)	431,925
Accrued Payroll, Benefits, and Related Liabilities	(235,108)	124,999
Deferred Revenue	(4,410)	4,410
Other Accrued Expenses	<u>45,185</u>	<u>1,866</u>
Net Cash Provided by Operating Activities	120,662	27,688
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Assets Whose Use is Limited	225,812	134,657
Change in Investments	173,787	(18,239)
Capital Expenditures	<u>(108,664)</u>	<u>(854,049)</u>
Net Cash Provided (Used) by Investing Activities	290,935	(737,631)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Long-Term Debt	(541,367)	(68,517)
Payments on Capital Lease Obligations	(241,397)	(224,609)
Proceeds From Issuance of Long-Term Debt	528,615	577,277
Overdrafts Payable	<u>(86,224)</u>	<u>86,224</u>
Net Cash Provided (Used) by Financing Activities	<u>(340,373)</u>	<u>370,375</u>

The accompanying notes are an integral part of these financial statements

JOHNS COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net Increase (Decrease) in Cash and Cash Equivalents	71,224	(339,568)
Cash and Cash Equivalents, Beginning of Year	<u>4,154</u>	<u>343,722</u>
Cash and Cash Equivalents, End of Year	<u><u>75,378</u></u>	<u><u>4,154</u></u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u><u>\$ 99,966</u></u>	<u><u>\$ 78,734</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital Lease Obligations	<u><u>\$ 6,853</u></u>	<u><u>\$ 919,656</u></u>

The accompanying notes are an integral part of these financial statements

**JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Johns Community Hospital (Hospital), located in Taylor, Texas, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of Taylor, Texas. Admitting physicians are primarily practitioners in the local area. The Hospital serves the community under the direction of its Board of Directors. Johns Community Hospital prepares its financial statements in accordance with generally accepted accounting principles.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 and Cash Equivalents - For purposes of the statement of cash flows, the Hospital considers highly liquid investments with a maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third party payers.

The Hospital occasionally invests its surplus operating funds (if any) in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Assets Whose Use is Limited - Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future Capital improvements and worker's compensation claims, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at December 31, 2008 and 2007.

Property and Equipment - Property and Equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued) - Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Excess of Revenues Over Expenses – The statements of operations includes excess of *revenues over expenses*. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

Income Taxes - The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

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 disaster; and employee health, dental, and accidental benefits. The Hospital is self-funded for workers' compensation, and commercial insurance coverage is purchased for claims arising from other matters.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 2 - NET PATIENT 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:

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 allowable costs 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. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

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.

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

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 2 - NET PATIENT REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	<u>2008</u>	<u>2007</u>
Routine Patient Services	\$ 2,189,508	\$ 2,416,786
Ancillary Patient Services		
Inpatient	7,309,634	9,096,263
Outpatient	<u>21,489,859</u>	<u>21,425,417</u>
Gross Patient Service Revenue	30,989,001	32,938,466
Charity	(657,128)	(654,380)
Contractual Adjustments and Discounts	<u>(14,459,460)</u>	<u>(14,770,506)</u>
Net Patient Service Revenue	<u><u>\$ 15,872,413</u></u>	<u><u>\$ 17,513,580</u></u>

Estimated Third-Party Payor Settlements - 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. Anticipated final settlement amounts from current and prior years' cost reports are recorded in the financial statement as they are determined by the Hospital. Net patient service revenue increased approximately \$110,436 in 2008 due to prior year retroactive adjustments in excess of amounts previously estimated. Estimated third-party payor settlements recorded in current assets at December 31, 2008 and 2007 are \$305,010 and \$463,105, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Patient Accounts Receivable	\$ 4,588,605	\$ 6,099,267
Less: Allowance for Bad Debts	(917,140)	(1,930,374)
Allowance for Contractuals	<u>(1,743,819)</u>	<u>(1,866,856)</u>
Accounts Receivable, Net of Allowance	<u><u>\$ 1,927,646</u></u>	<u><u>\$ 2,302,037</u></u>

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 3 - ACCOUNTS RECEIVABLE (CONTINUED)

Concentration of Credit Risk - The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors at December 31 is as follows:

	<u>2008</u>	<u>2007</u>
Medicare	36%	40%
Medicaid	3%	6%
Other Third-Party Payors	59%	27%
Patients	<u>2%</u>	<u>27%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

NOTE 4 - ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at December 31, 2008 and 2007, is set forth in the following table. Short-term investments consist primarily of certificates of deposit and money market accounts. Investments consist primarily of mutual funds and are reported at fair value with unrealized gains (losses) included in the statement of operations. Fair value of investments in mutual funds is determined based on published fair value per share.

	<u>2008</u>	<u>2007</u>
Internally Designated for Workers' Compensation Claims	\$ 22,964	\$ 2,804
Internally Designated for USDA Debt Service	47,041	40,138
Internally Designated for Capital Acquisition	<u>37,385</u>	<u>290,260</u>
Assets Whose Use is Limited	107,390	333,202
Less Current Portion	<u>(47,041)</u>	<u>(40,138)</u>
Assets Whose Use Is Limited, Net of Current Portion	<u><u>\$ 60,349</u></u>	<u><u>\$ 293,064</u></u>

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 5 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost less accumulated depreciation, as of December 31:

	<u>2008</u>	<u>2007</u>
Land	\$ 22,500	\$ 22,500
Land Improvements	10,747	10,747
Buildings and Improvements	6,659,939	6,570,348
Equipment	4,428,133	4,421,960
Equipment Under Capital Lease Obligations	<u>1,179,732</u>	<u>1,172,879</u>
 Total Property and Equipment	 12,301,051	 12,198,434
Less Accumulated Depreciation and Amortization	<u>(7,860,198)</u>	<u>(7,028,816)</u>
 Property and Equipment, Net	 <u><u>\$ 4,440,853</u></u>	 <u><u>\$ 5,169,618</u></u>

The Hospital's depreciation expense for the years ended December 31, 2008 and 2007, totaled \$844,282 and \$699,451, respectively.

NOTE 6 – LAND HELD FOR SALE

The Hospital was a beneficiary of the Edna Lueckemeyer Testamentary Trust, along with a local church. The trust was terminated December 12, 2000, and the residual estate was duly administered. During the year ended December 31, 2003, the Hospital Board decided to sell their interest in the land, but no sale had been transacted as of year end. Additionally, the carrying value of the land is not included in Note 5, as it is not currently used for operating purposes, and is therefore, reported separately on the balance sheets as property held for sale as of December 31, 2008 and 2007.

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 7 - LONG-TERM DEBT

The following is a summary of long-term debt and capital lease obligations as of December 31:

	<u>2008</u>	<u>2007</u>
Notes Payable:		
Note with USDA Rural Development, interest rate of 4.50%, payable in monthly installments of \$5,569, due January 2032.	\$ 937,863	\$ 962,041
Note with Coupland, interest rate of 4.00%, payable in monthly installments of \$593, due November 2022.	73,529	76,949
Note with LoneSTAR (State Energy Conservation Office), interest rate of 3%, payments beginning in 2008, due within a 10 year period.	<u>592,123</u>	<u>577,277</u>
Total Notes Payable	1,603,515	1,616,267
Capital lease obligations, imputed interest rates from 0% to 10.77%.	<u>693,519</u>	<u>928,063</u>
Total Long-Term Debt	2,297,034	2,544,330
Less: Current Portion	<u>(314,709)</u>	<u>(311,130)</u>
Non-Current Portion	<u>\$ 1,982,325</u>	<u>\$ 2,233,200</u>

Under the agreement with the USDA, the Hospital is required to deposit \$557 per month into a reserve fund until \$66,828 is accumulated. As of December 31, 2008 and 2007, the account is valued at \$47,041 and \$40,138, respectively.

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of the long-term debt principal and interest maturities for each of the next five years:

Year Ending December 31,	Long - Term Debt	Capital Lease Obligations
2009	\$ 84,424	\$ 251,722
2010	87,428	229,927
2011	90,534	133,789
2012	93,756	96,819
2013	97,096	15,914
Thereafter	1,150,276	-
Total	<u>\$ 1,603,515</u>	\$ 728,171
Less: Amounts Representing Interest		<u>(34,652)</u>
Present Value of Minimum Lease Payments		<u>\$ 693,519</u>

The Hospital follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2008 and 2007, total interest incurred was \$101,697 and \$78,734, respectively, all of which was charged to operations.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Litigation - The Hospital is from time to time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Hospital's financial position or results of operations.

Operating Leases – The Hospital leases facilities and equipment under month to month operating leases. Total rental expense in 2008 and 2007 for all operating leases was \$849 and \$40,076, respectively.

JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance Arrangements – The Hospital is insured for professional liability up to \$100,000 per occurrence, \$300,000 aggregate, under a primary professional liability policy. Amounts in excess of the primary professional liability claims are insured under a claims-made policy. A claims-made policy covers only professional liability claims reported to the insurance carrier during the policy term. In the event the claims-made policy is not renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The Hospital has renewed its claims-made policy for coverage through July 1, 2009.

The Hospital is self-funded for workers' compensation insurance. Currently, the Hospital pays the claims as they arrive and has set aside cash reserves for future claims. The amounts paid by the Hospital for current claims in years ended December 31, 2008 and 2007, were \$56,010 and \$21,609, respectively. As of December 31, 2008 the Hospital had \$47,859 in accrued claims payable. As of December 31, 2007, the amount of existing claims was not considered significant by management; therefore, an accrual was not set up.

NOTE 9 - EMPLOYEE BENEFITS

Compensated Absences – As of December 31, 2008 and 2007, the Hospital has accrued compensated absence liability of \$275,640 and \$285,515, respectively. The Hospital does pay accrued paid time off upon termination if proper notice and termination procedures are followed.

Pension Plan – The Hospital maintains a 401(k) plan. The Hospital matches employee contributions up to 5% of the employee's base salary. Hospital employees are 100% vested in the amounts they contribute to the plan and fully vested in the Hospital contributions after five years of service while working at least 1,000 hours. Total contributions to the plan at December 31, 2008 and 2007 were \$232,668 and 245,484, respectively.

NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted assets at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Permanently Restricted Assets:		
Donor Restricted to be Held in Perpetuity	321,680	321,680
Temporarily Restricted Assets:		
Donor Restricted for Capital Acquisition	-	63,796
Donor Restricted for Mammograms	<u>2,894</u>	<u>-</u>
Total Restricted Net Assets	<u>\$ 324,574</u>	<u>\$ 385,476</u>

Permanently restricted net assets at December 31, 2008 and 2007, are investments to be held in perpetuity, the income from which is expendable to support health care services.

**JOHNS COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007**

NOTE 11 - RELATED PARTY

A local attorney, who is also a member of the Hospital's Board of Directors, advises the Hospital on certain legal matters. It was also noted that the Hospital maintains funds at a bank, where a Board member is the president. The Hospital has a conflict of interest policy and the board members have fully disclosed these relationships.

NOTE 12 – HOSPITAL OPERATIONS

The Hospital has sustained substantial operating losses of \$601,294 and \$601,643 in 2008 and 2007, respectively. In addition, the Hospital has used substantial amounts of working capital in its operations. In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the company, which in turn is dependent upon the Hospital's ability to meet its financing requirements, and the success of its future operations.

D U R B I N & C O M P A N Y, L.L.P.

Certified Public Accountants

2950 50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

I N D E P E N D E N T A U D I T O R ' S R E P O R T O N O T H E R F I N A N C I A L I N F O R M A T I O N

Management and the Board of Directors
Johns Community Hospital
Taylor, Texas

Our report on our audit of the basic financial statements of Johns Community Hospital for December 31, 2008 appears on at the beginning of this report. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information on pages 18 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Durbin & Company, L.L.P.
June 6, 2009

JOHNS COMMUNITY HOSPITAL
TOTAL REVENUE, GAINS AND OTHER SUPPORT
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Routine Services		
Acute	\$ 1,482,366	\$ 1,599,872
Swing Bed	695,894	739,109
ICU	11,248	77,805
Total Routine Services	<u>2,189,508</u>	<u>2,416,786</u>
Ancillary Services		
Inpatient:		
Operating and Recovery Room	354,693	217,162
Anesthesia	168,020	139,358
Radiology and Nuclear Medicine	896,074	958,162
Laboratory	1,338,465	1,491,633
Blood	137,699	125,630
Cardiovascular	26,794	19,459
Intravenous Therapy	522,498	797,581
Respiratory Therapy	1,346,492	2,367,872
Physical Therapy	447,976	520,876
Speech Therapy	17,262	35,666
Occupational Therapy	138,613	159,431
Central Supply	173	57
Pharmacy	1,225,667	1,470,462
Emergency Room	433,380	489,391
ER Physicians	253,032	298,830
Observation Room	2,796	4,694
Total Inpatient Ancillary Services	<u>7,309,634</u>	<u>9,096,263</u>

See Independent auditor's report on other financial information

JOHNS COMMUNITY HOSPITAL
TOTAL REVENUE, GAINS AND OTHER SUPPORT (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Outpatient:		
Operating Room and Recovery Room	1,459,648	1,540,910
Anesthesia	455,866	669,974
Radiology and Nuclear Medicine	3,694,312	3,683,129
Laboratory	3,494,695	2,859,090
Blood	99,067	63,831
Cardiovascular	100,592	118,491
Intravenous Therapy	132,781	136,084
Respiratory Therapy	387,824	460,725
Physical Therapy	1,702,051	1,684,873
Speech Therapy	83,984	56,447
Occupational Therapy	367,370	333,190
Central Supply	314	62
Pharmacy	563,068	754,134
Emergency Room	3,094,198	2,854,037
ER Physicians	2,238,532	2,513,795
Observation	138,073	134,427
Health Center	2,810,134	3,017,779
Home Health	667,350	544,439
Total Outpatient Ancillary Services	<u>21,489,859</u>	<u>21,425,417</u>
 Gross Patient Revenue	 \$ 30,989,001	 \$ 32,938,466
 Deductions from Revenue		
Charity	(657,128)	(654,380)
Contractual Adjustments and Discounts	(14,459,460)	(14,770,506)
Total Deductions from Revenue	<u>(15,116,588)</u>	<u>(15,424,886)</u>
 Net Patient Service Revenue	 <u>\$ 15,872,413</u>	 <u>\$ 17,513,580</u>

See Independent auditor's report on other financial information

JOHNS COMMUNITY HOSPITAL
TOTAL REVENUE, GAINS AND OTHER SUPPORT (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Other Revenue		
Cafeteria Revenue	21,140	23,150
Medical Records	7,391	6,909
Miscellaneous	<u>179,952</u>	<u>271,718</u>
Total Other Revenue	<u><u>\$ 208,483</u></u>	<u><u>\$ 301,777</u></u>

See Independent auditor's report on other financial information

JOHNS COMMUNITY HOSPITAL
OPERATING EXPENSE
YEARS ENDED APRIL 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Routine Services	\$ 1,466,476	\$ 1,487,066
Ancillary Services		
Operating Room	636,180	767,451
Anesthesia	263,791	270,421
Radiology and Nuclear Medicine	760,829	870,142
Laboratory	983,171	898,528
Cardiovascular	266,756	314,623
Intravenous Therapy	53,767	84,224
Rehab Therapy	293,469	318,196
Speech Therapy	55,017	45,661
Occupational Therapy	74,025	72,046
Central Supply	68,944	80,737
Pharmacy	517,977	573,811
Emergency Room	753,876	974,710
ER Physicians	866,463	766,766
Health Center	1,725,600	1,816,018
Home Health	473,838	419,477
Clinical Services	<u>73,160</u>	<u>77,409</u>
Total Ancillary Services	7,866,863	8,350,220
General Services		
Operation and Plant	534,701	491,511
Housekeeping	241,000	280,310
Dietary	239,834	238,756
Social Services	<u>27,660</u>	<u>27,265</u>
Total General Services	1,043,195	1,037,841

See Independent auditor's report on other financial information

JOHNS COMMUNITY HOSPITAL
OPERATING EXPENSES (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Administrative Services		
Salaries	1,235,457	1,222,474
Employee Benefits	1,271,708	1,365,015
Office Supplies and Expense	14,561	21,783
Insurance	47,859	-
Legal and Accounting	288,727	258,371
Telephone	41,518	43,170
Marketing and Advertising	48,913	53,673
Nursing Administration	154,355	140,573
Collection Fees	41,418	38
Miscellaneous	245,458	188,168
Total Administrative Services	<u>3,389,974</u>	<u>3,293,264</u>
Interest	101,697	78,734
Depreciation and Amortization	844,282	699,451
Provision for Bad Debts	<u>1,986,026</u>	<u>3,543,123</u>
Total Operating Expenses	<u><u>\$ 16,698,514</u></u>	<u><u>\$ 18,489,699</u></u>

See Independent auditor's report on other financial information