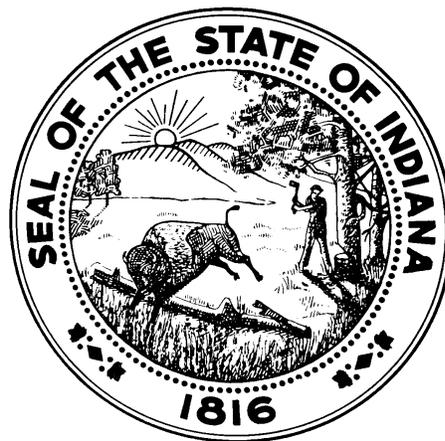


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF
PUTNAM COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
07/28/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report	3
Basic Financial Statements:	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16
Audit Results and Comments:	
Transaction Recording	17
Official Bonds.....	17
Exit Conference.....	18

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Dennis Weatherford	01-01-08 to 12-31-09
Treasurer	Dennis Weatherford	01-01-08 to 12-31-09
Chairman of the Hospital Board	Keith Ernst David Bray	01-01-08 to 12-31-08 01-01-09 to 12-31-09
President of the Board of County Commissioners	Gene Beck	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PUTNAM COUNTY HOSPITAL, PUTNAM COUNTY, INDIANA

We have audited the accompanying basic financial statements of Putnam County Hospital (Hospital) as of and for the year ended December 31, 2008, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Hospital has not presented Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

STATE BOARD OF ACCOUNTS

June 30, 2009

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Primary Government</u>
Current assets:	
Cash and cash equivalents	\$ 5,010,372
Short-term investments	500,000
Patient accounts receivable, net of estimated uncollectibles of \$3,843,704	4,125,378
Supplies and other current assets	1,431,526
Noncurrent cash and investments:	
Internally designated	3,006,188
Restricted by contributors and grantors	129,098
Capital assets:	
Land and construction in progress	211,933
Depreciable capital assets, net of accumulated depreciation	16,064,943
Other assets	<u>106,801</u>
 Total assets	 <u>\$ 30,586,239</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 607,727
Accounts payable and accrued expenses	1,209,765
Estimated third-party payor settlements	105,777
Other current liabilities	1,068,646
Long-term debt, net of current maturities	10,171,338
Other long-term liabilities	<u>4,271</u>
Total liabilities	<u>13,167,524</u>
Net assets:	
Invested in capital assets, net of related debt	5,497,811
Restricted:	
Expendable for specific operating activities	129,098
Unrestricted	<u>11,791,806</u>
Total net assets	<u>17,418,715</u>
 Total liabilities and net assets	 <u>\$ 30,586,239</u>

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

PUTNAM COUNTY HOSPITAL
 A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Year Ended December 31, 2008

	<u>Primary Government</u>
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 33,808,675
Other	<u>329,212</u>
Total operating revenues	<u>34,137,887</u>
Operating expenses:	
Salaries and benefits	20,670,799
Medical supplies and drugs	4,051,128
Insurance	844,091
Other supplies	1,567,435
Depreciation and amortization	2,196,999
Other operating expense	<u>4,307,819</u>
Total operating expenses	<u>33,638,271</u>
Operating income	<u>499,616</u>
Nonoperating revenues (expenses):	
Investment income	114,358
Interest expense	(446,531)
Noncapital grants and contributions	107,371
Loss on sale of equipment	(1,578)
Loss on investment in affiliated companies	(5,626)
Nonoperating expense	<u>(90,064)</u>
Total nonoperating revenues (expenses)	<u>(322,070)</u>
Increase in net assets	177,546
Net assets beginning of the year	<u>17,241,169</u>
Net assets end of the year	<u>\$ 17,418,715</u>

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

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 35,338,198
Payments to suppliers and contractors	(6,241,578)
Payments to employees	(20,614,055)
Other receipts and payments, net	<u>(4,355,709)</u>
Net cash provided by operating activities	<u>4,126,856</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions net of expenses	<u>17,310</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(572,345)
Interest paid on long-term debt	(446,531)
Purchase of capital assets	<u>(664,327)</u>
Net cash used by capital and related financing activities	<u>(1,683,203)</u>
Cash flows from investing activities:	
Interest and dividends on investments	114,358
Purchase of investments	<u>(500,000)</u>
Net cash used by investing activities	<u>(385,642)</u>
Net increase in cash and cash equivalents	2,075,321
Cash and cash equivalents at beginning of year	<u>6,070,337</u>
Cash and cash equivalents at end of year	<u>\$ 8,145,658</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 8,016,560
Restricted cash and cash equivalents	<u>129,098</u>
Total cash and cash equivalents	<u>\$ 8,145,658</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 499,616
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	2,196,999
Provision for bad debts	(1,913,552)
Increase in current assets:	
Patient accounts receivable	3,443,075
Supplies and other current assets	328,764
Other assets	116,549
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(224,237)
Other current liabilities	56,744
Estimated third-party payor settlements	<u>(377,102)</u>
Net cash provided in operating activities	<u>\$ 4,126,856</u>

Noncash investing, capital, and financing activities:

The Hospital entered into a capital lease obligation of \$60,343 for new equipment in 2008.

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

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Putnam 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 out-patient health care.

The Board of County Commissioners of Putnam 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 Putnam County.

The accompanying financial statements present the activities of the Hospital (primary government). There are no significant component units which require inclusion.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

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

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments 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.

PUTNAM COUNTY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2. Use of Estimates

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

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 1,000	Straight-line	2-25 Years
Buildings and improvements	1,000	Straight-line	10-40 Years
Equipment	1,000	Straight-line	3-25 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.

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, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II G.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Grants and Contributions

From time to time, the Hospital receives grants from Putnam 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. 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.

F. 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.

G. Compensated Absences

1. Sick Leave

Part-time and full-time Hospital employees earn sick leave at the rate of 3 and 5 days per year, respectively. Sick leave does not accumulate from year to year.

2. Vacation Leave

Hospital employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

3. Personal Leave

Hospital employees earn personal leave at the rate of 1 day per year. Personal leave does not accumulate from year to year.

Vacation, sick and personal leave is accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 6,056,794
Receivable from Medicare	1,271,158
Receivable from Medicaid	<u>641,130</u>
 Total patient accounts receivable	 7,969,082
 Less allowance for uncollectible amounts	 <u>3,843,704</u>
 Patient accounts receivable, net	 <u><u>\$ 4,125,378</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 543,217
Payable to suppliers	639,478
Other	<u>27,070</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 1,209,765</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2008, 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	\$ 159,364	\$ -	\$ -	\$ 159,364
Construction in progress	<u>1,503,500</u>	<u>104,504</u>	<u>1,555,435</u>	<u>52,569</u>
 Total capital assets, not being depreciated	 <u>1,662,864</u>	 <u>104,504</u>	 <u>1,555,435</u>	 <u>211,933</u>
Capital assets, being depreciated:				
Land improvements	288,901	7,178	-	296,079
Buildings and improvements	24,335,583	1,444,102	-	25,779,685
Equipment	<u>11,893,607</u>	<u>724,321</u>	<u>1,893</u>	<u>12,616,035</u>
 Totals	 <u>36,518,091</u>	 <u>2,175,601</u>	 <u>1,893</u>	 <u>38,691,799</u>

PUTNAM 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 (continued):				
Less accumulated depreciation for:				
Land improvements	199,890	8,175	-	208,065
Buildings and improvements	11,322,038	1,051,001	-	12,373,039
Equipment	8,910,819	1,135,248	315	10,045,752
Totals	<u>20,432,747</u>	<u>2,194,424</u>	<u>315</u>	<u>22,626,856</u>
Total capital assets, being depreciated, net	<u>16,085,344</u>	<u>(18,823)</u>	<u>1,578</u>	<u>16,064,943</u>
Total primary government capital assets, net	<u>\$ 17,748,208</u>	<u>\$ 85,681</u>	<u>\$ 1,557,013</u>	<u>\$ 16,276,876</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2008</u>	<u>Committed</u>	<u>Required Future Funding</u>
Putnam County Hospital Brick Renovation	<u>\$ 150,000</u>	<u>\$ 52,569</u>	<u>\$ 97,431</u>	<u>\$ -</u>

E. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for copiers. Rental expenditures for this lease were \$22,715. The following is a schedule by years of future minimum rental payments as of year end:

2009	\$ 24,780
2010	24,780
2011	24,780
2012	<u>18,585</u>
Total	<u>\$ 92,925</u>

2. Capital Leases

The Hospital has entered into a capital lease for medical equipment. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of year-end are as follows:

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2009	\$ 20,883
2010	22,781
2011	<u>11,391</u>
Total minimum lease payments	55,055
Less amount representing interest	<u>5,308</u>
Present value of net minimum lease payments	<u><u>\$ 49,747</u></u>

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

Equipment	\$ 60,343
Accumulated depreciation	<u>7,040</u>
Total	<u><u>\$ 53,303</u></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 \$3,213,423, are as follows:

2009	\$ 1,003,960
2010	1,003,960
2011	1,003,960
2012	1,003,956
2013	1,003,960
2014-2018	5,019,800
2019-2023	<u>3,903,145</u>
Total	<u><u>\$ 13,942,741</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, 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	\$ -	\$ 60,343	\$ 10,596	\$ 49,747	\$ 17,715
Notes payable	<u>11,292,550</u>	<u>-</u>	<u>563,232</u>	<u>10,729,318</u>	<u>590,012</u>
Total long-term liabilities	<u><u>\$ 11,292,550</u></u>	<u><u>\$ 60,343</u></u>	<u><u>\$ 573,828</u></u>	<u><u>\$ 10,779,065</u></u>	<u><u>\$ 607,727</u></u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Endowments and Restricted Net Assets

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

	<u>2008</u>
Restricted by contributors:	
General	<u>\$ 129,098</u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$740,118 for 2008.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

Internally designated:	
Funded depreciation:	
Cash and cash equivalents	<u>\$ 3,006,188</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 and dependents; 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.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the general ledger where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$60,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

C. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Fair Value Measurements

Statement on Financial Accounting Standards No. 157, Fair Value Measurements (as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Hospital impacted by this pronouncement include the Hospital's investments and assets whose use is limited which are measured using quoted prices in active markets and other significant observable inputs.

The Hospital partially adopted the provisions of FAS 157 for fiscal year 2008, but will delay adoption of non-financial assets and non-financial liabilities covered by FASB Staff Position No. FAS 157-2. This Staff Position permits entities to partially defer the effective date of FAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2009.

When fully adopted, the Hospital will apply the provisions of FAS 157-2 to certain non-financial assets and liabilities and is currently evaluating the impact of the full adoption of this statement on the activities, changes in net assets and financial position. Using the provisions within SFAS No. 157, the Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1 - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds.

Level 2 - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of US government securities that trade infrequently and certificates of deposit.

Level 3 - These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

Based upon the levels as defined the Hospital's investments as of December 31, 2008, are classified as follows:

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Investment Type</u>	<u>December 31, 2008</u>	<u>Fair value measurements at reporting date using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other Observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Certificates of deposit	\$ 500,000	\$ -	\$ 500,000	\$ -

E. 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.

F. Pension Plan

Defined Contribution Pension Plan

Putnam County Hospital Employee Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group as authorized by Indiana Code 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
P.O. Box 2340
Ft. Wayne, IN 46801-2340
Ph. 800-248-0838

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. The Hospital fully funds the plan by contributing 8% of the annual covered payroll. A second provision of the plan established pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended, allows for voluntary contributions for the purpose of purchasing retirement annuity contracts. The Hospital matches qualifying employee contributions up to a maximum of 3.5% of the first 6% of employee contributions. Employer and employee contributions to the plan were \$636,058 and \$722,627, respectively.

PUTNAM COUNTY HOSPITAL
AUDIT RESULTS AND COMMENTS

TRANSACTION RECORDING

Restricted Cash Revenues and Expenses were reflected as net transactions on the financial statements. The financial statements have been adjusted to identify gross Nonoperating Revenues and Expenses from grants and contributions.

The Hospital's financial statements included transactions recording rental income and expense of \$225,000 charged to the physician practices. There was no money exchanged in these transactions. The financial statements have been adjusted to eliminate these transactions.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

OFFICIAL BONDS

The following official bonds were not filed in the Office of the County Recorder:

David Bray, Trustee
Frederick Mann, Trustee
Employee Dishonesty Coverage Policies

IC 16-22-2-9(c) states in part: "The executive director and all persons whose duty it is to handle funds of the hospital must execute a corporate surety bond in the amount and with conditions required by the board. . . . All bonds required by this subsection must be approved by the board and filed with the county recorder."

PUTNAM COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 30, 2009, with Dennis Weatherford, Executive Director; Roger Boruff, Chief Financial Officer; David Bray, President of the Hospital Board of Trustees; and Debbie S. Krumreich, Accounting Manager. The officials concurred with our audit findings.