

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

AUDIT REPORT  
OF

SULLIVAN COUNTY COMMUNITY HOSPITAL  
A COMPONENT UNIT OF  
SULLIVAN COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**  
05/29/2007



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 .....	7-17
Exit Conference.....	18

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Patricia Holden	01-01-06 to 01-23-06
	Taylor Cook (Interim)	01-24-06 to 03-27-06
	Michelle Sly-Smith (Interim)	03-28-06 to 10-16-06
	Michelle Sly-Smith	10-17-06 to 12-31-07
Treasurer	Patricia Holden	01-01-05 to 01-23-06
	Vacant	01-24-06 to 03-27-06
	Michelle Sly-Smith (Interim)	03-28-06 to 10-16-06
	Michelle Sly-Smith	10-17-06 to 12-31-07
Chairman of the Hospital Board	Alice Dodd	08-16-05 to 07-17-06
	James C. Springer	07-18-06 to 06-30-07
President of the Board of County Commissioners	Chris Atkinson	01-01-06 to 12-31-06
	Carter Phegley	01-01-07 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SULLIVAN COUNTY COMMUNITY  
HOSPITAL, SULLIVAN COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Sullivan County Community Hospital (Hospital), and its aggregate discretely presented component units as of and for the year ended December 31, 2006, 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 and its aggregate discretely presented component units as of December 31, 2006, 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's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 30, 2007

SULLIVAN COUNTY COMMUNITY HOSPITAL  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 1,499,005	\$ -	\$ 1,499,005
Patient accounts receivable, net of estimated uncollectibles of \$2,802,446	2,974,718	-	2,974,718
Supplies and other current assets	965,241	-	965,241
Noncurrent cash and investments:			
Internally designated	7,283,796	-	7,283,796
Held by trustee for debt service	390,781	-	390,781
Capital assets:			
Land and construction in progress	988,476	-	988,476
Depreciable capital assets, net of accumulated depreciation	<u>14,338,862</u>	<u>1,019,486</u>	<u>15,358,348</u>
 Total assets	 <u>\$ 28,440,879</u>	 <u>\$ 1,019,486</u>	 <u>\$ 29,460,365</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 687,294	\$ -	\$ 687,294
Accounts payable and accrued expenses	1,815,153	-	1,815,153
Estimated third-party payor settlements	80,000	-	80,000
Other current liabilities	-	22,795	22,795
Long-term debt, net of current maturities	<u>8,025,000</u>	<u>-</u>	<u>8,025,000</u>
 Total liabilities	 <u>10,607,447</u>	 <u>22,795</u>	 <u>10,630,242</u>
Net assets:			
Invested in capital assets, net of related debt	6,615,044	1,019,486	7,634,530
Restricted:			
For debt service	390,781	-	390,781
Expendable for capital acquisitions	39,094	-	39,094
Unrestricted	<u>10,788,513</u>	<u>(22,795)</u>	<u>10,765,718</u>
 Total net assets	 <u>17,833,432</u>	 <u>996,691</u>	 <u>18,830,123</u>
 Total liabilities and net assets	 <u>\$ 28,440,879</u>	 <u>\$ 1,019,486</u>	 <u>\$ 29,460,365</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended December 31, 2006

	Primary Government	Discrete Component Units	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 18,721,105	\$ -	\$ 18,721,105
Other	<u>142,709</u>	<u>-</u>	<u>142,709</u>
Total operating revenues	<u>18,863,814</u>	<u>-</u>	<u>18,863,814</u>
Operating expenses:			
Salaries and benefits	9,650,603	-	9,650,603
Medical supplies and drugs	1,863,300	-	1,863,300
Insurance	279,217	-	279,217
Other expenses and supplies	3,563,145	-	3,563,145
Depreciation and amortization	<u>1,531,325</u>	<u>-</u>	<u>1,531,325</u>
Total operating expenses	<u>16,887,590</u>	<u>-</u>	<u>16,887,590</u>
Operating income	<u>1,976,224</u>	<u>-</u>	<u>1,976,224</u>
Nonoperating revenues (expenses):			
Investment income	392,764	-	392,764
Interest expense	(425,888)	-	(425,888)
Other	<u>42,603</u>	<u>(120,145)</u>	<u>(77,542)</u>
Total nonoperating revenues (expenses)	<u>9,479</u>	<u>(120,145)</u>	<u>(110,666)</u>
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	<u>1,985,703</u>	<u>(120,145)</u>	<u>1,865,558</u>
Capital transfer in (out)	(39,969)	39,969	-
Increase (decrease) in net assets	1,945,734	(80,176)	1,865,558
Net assets beginning of the year	<u>15,887,698</u>	<u>1,076,867</u>	<u>16,964,565</u>
Net assets end of the year	<u>\$ 17,833,432</u>	<u>\$ 996,691</u>	<u>\$ 18,830,123</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2006

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 18,587,303
Payments to suppliers and contractors	(5,428,054)
Payments to employees	(9,195,233)
Other receipts and payments, net	<u>(598,353)</u>
Net cash provided by operating activities	<u>3,365,663</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(655,621)
Interest paid on long-term debt	(425,888)
Purchase of capital assets	<u>(2,100,874)</u>
Net cash used by capital and related financing activities	<u>(3,182,383)</u>
Cash flows from investing activities:	
Interest and dividends on investments	392,764
Purchase of investments	<u>(1,090,986)</u>
Net cash used by investing activities	<u>(698,222)</u>
Net decrease in cash and cash equivalents	(514,942)
Cash and cash equivalents at beginning of year	<u>2,404,728</u>
Cash and cash equivalents at end of year	<u>\$ 1,889,786</u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Cash and cash equivalents in current assets	\$ 1,499,005
Restricted cash and cash equivalents	<u>390,781</u>
Total cash and cash equivalents	<u>\$ 1,889,786</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,976,224
Adjustments to reconcile operating income to net cash flows provided in operating activities:	
Depreciation and amortization	1,531,325
Provision for bad debts	2,845,940
Other nonoperating expenses	(77,542)
Increase in current assets:	
Patient accounts receivable	(2,979,742)
Supplies and other current assets	(285,628)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	479,001
Other current liabilities	7,408
Estimated third-party payor settlements	<u>(131,323)</u>
Net cash provided in operating activities	<u>\$ 3,365,663</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Sullivan County Community Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Sullivan 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 Sullivan County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Unit

The SCCH Fitness Center, Inc., is a significant discretely presented component unit of the Hospital. The primary government appoints a voting majority of the Center's board and is able to impose its will. A financial benefit/burden relationship exists between the Hospital and the Center.

Separate audit reports are not prepared for the individual component unit.

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 90 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.

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

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.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with 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	\$ 5,000	Straight-line	5 to 20 years
Buildings and improvements	5,000	Straight-line	10 to 20 years
Equipment	5,000	Straight-line	3 to 10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Net Assets

Net assets of the Hospital are classified in four 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.A.1.

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

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

D. 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.

E. 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.

F. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 76 days.

Paid days off are accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-15 requires only that money in the hospital funds be deposited in the manner determined by the governing board. The Hospital has a formal policy regarding custodial credit risk for deposits. Deposits and investments are limited to local financial institutions that are members of the Indiana Board of Depositories which allows unlimited insurance coverage for public deposits above the \$100,000 insured by the Federal Deposit Insurance Corporation (FDIC).

SULLIVAN COUNTY COMMUNITY HOSPITAL  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2006, the Hospital had the following investments:

Investment Type	Primary Government Market Value	Investment Maturities (in Years)		
		Less Than 1	1-2	More Than 2
Certificates of deposits	\$ 7,150,000	\$ 7,150,000	\$ -	\$ -

Investment Policies

Indiana Code 16-22-3-20 authorizes the Hospital to invest in: (1) any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (2) repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective; (3) mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana; (4) securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency; or (5) pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital has no formal policy regarding interest rate risk.

B. Accounts Receivable and Payable

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

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 4,340,405
Receivable from Medicare	1,086,944
Receivable from Medicaid	<u>349,815</u>
 Total patient accounts receivable	 5,777,164
 Less allowance for uncollectible amounts	 <u>2,802,446</u>
 Patient accounts receivable, net	 <u>\$ 2,974,718</u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,410,401
Payable to suppliers	270,562
Other	<u>134,190</u>
 Total accounts payable and accrued expenses	 <u>\$ 1,815,153</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2006, 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	\$ 442,685	\$ 499,951	\$ -	\$ 942,636
Construction in progress	<u>7,439</u>	<u>1,018,520</u>	<u>980,119</u>	<u>45,840</u>
 Total capital assets, not being depreciated	 <u>450,124</u>	 <u>1,518,471</u>	 <u>980,119</u>	 <u>988,476</u>
Capital assets, being depreciated:				
Land improvements	1,223,457	228,632	-	1,452,089
Buildings and improvements	14,367,885	51,665	-	14,419,550
Equipment	<u>8,276,654</u>	<u>1,407,504</u>	<u>808,893</u>	<u>8,875,265</u>
 Totals	 <u>23,867,996</u>	 <u>1,687,801</u>	 <u>808,893</u>	 <u>24,746,904</u>

SULLIVAN COUNTY COMMUNITY 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:				
Buildings and improvements	6,357,880	1,209,397	681,943	6,885,334
Equipment	<u>3,275,219</u>	<u>321,926</u>	<u>74,437</u>	<u>3,522,708</u>
Totals	<u>9,633,099</u>	<u>1,531,323</u>	<u>756,380</u>	<u>10,408,042</u>
Total capital assets, being depreciated, net	<u>14,234,897</u>	<u>156,478</u>	<u>52,513</u>	<u>14,338,862</u>
Total primary government capital assets, net	<u>\$ 14,685,021</u>	<u>\$ 1,674,949</u>	<u>\$ 1,032,632</u>	<u>\$ 15,327,338</u>

Discretely Presented Component Units

Capital assets, being depreciated:				
Land improvements	\$ 7,143	\$ -	\$ -	\$ 7,143
Buildings and improvements	1,066,797	-	-	1,066,797
Equipment	<u>131,888</u>	<u>9,451</u>	<u>4,278</u>	<u>137,061</u>
Totals	<u>1,205,828</u>	<u>9,451</u>	<u>4,278</u>	<u>1,211,001</u>
Less accumulated depreciation for:				
Buildings, improvements and machinery and equipment	<u>113,574</u>	<u>77,941</u>	<u>-</u>	<u>191,515</u>
Total discretely presented component unit capital assets, net	<u>\$ 1,092,254</u>	<u>\$ (68,490)</u>	<u>\$ 4,278</u>	<u>\$ 1,019,486</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, 2006</u>	<u>Committed</u>	<u>Required Future Funding</u>
Meditech BMV software	\$ 22,000	\$ 2,200	\$ 22,000	\$ 19,800
ER Module	57,500	5,750	57,500	51,750
Infusion therapy	<u>224,966</u>	<u>37,890</u>	<u>224,966</u>	<u>187,076</u>
Totals	<u>\$ 304,466</u>	<u>\$ 45,840</u>	<u>\$ 304,466</u>	<u>\$ 258,626</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Operating Leases

The Hospital has entered a lease having initial or remaining noncancelable terms exceeding one year for an electronic medication processing system (Pyxis System). The following is a schedule by years of future minimum rental payments as of year end:

2007	<u>\$ 76,828</u>
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F. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1998 Indiana Health Facility Financing Authority revenue bonds	variable	<u>\$ 8,515,000</u>

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>
2007	\$ 490,000
2008	520,000
2009	550,000
2010	585,000
2011	585,000
2012-2016	2,905,000
2017-2021	<u>2,880,000</u>
Total	<u>\$ 8,515,000</u>

2. Notes Payable

The Hospital has entered into a note. Annual debt service requirements to maturity for the note, including interest of \$6,905, are as follows:

2007	<u>\$ 204,199</u>
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SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, 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>
Bonds payable:					
Revenue:					
Indiana Health Facility Financing Authority	\$ 8,980,000	\$ -	\$ 465,000	\$ 8,515,000	\$ 490,000
Notes payable	<u>387,915</u>	<u>-</u>	<u>190,621</u>	<u>197,294</u>	<u>197,294</u>
Total long-term liabilities	<u>\$ 9,367,915</u>	<u>\$ -</u>	<u>\$ 655,621</u>	<u>\$ 8,712,294</u>	<u>\$ 687,294</u>

4. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2006, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 18,863,814
Investment income	392,764
Less:	
Expenses (excluding depreciation, amortization and interest on funded debt)	<u>15,050,155</u>
Total net revenue available for debt service	<u>\$ 4,206,423</u>
Funded debt service for year	<u>\$ 1,081,510</u>
Historical debt service coverage ratio	<u>3.89:1</u>

G. Restricted Net Assets

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

Funds held under a bond indenture agreement by trustee:	
Payment of revenue bonds	<u>\$ 390,781</u>

H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$33,822 for 2006.

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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:	
Investments	\$ 7,150,000
Accrued interest receivable	<u>133,796</u>
 Total internally designated	 <u>\$ 7,283,796</u>

J. Adjustments Included in Net Patient Service Revenue

Net patient service revenue includes an adjustment of \$601,414, which resulted from payments received pursuant to Indiana Medicaid Municipal Hospital Payment Adjustments and prior year Medicare cost reports, reduced by Maxicare write-offs and increases in Medicare accounts receivable allowances. This adjustment was originally reported by the Hospital as an extraordinary item.

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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the general ledger where expenses are accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$35,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs).

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Changes in the balance of claim liabilities during the past two years are as follows:

	2005	2006
Unpaid claims, beginning of fiscal year	\$ 94,401	\$ 218,402
Incurred claims and changes in estimates	1,333,185	804,760
Claim payments	(1,209,184)	(690,880)
Unpaid claims, end of fiscal year	\$ 218,402	\$ 332,282

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. Postemployment Benefits

In addition to the pension benefits described in Note III.E., the Hospital provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Hospital before attaining age 65 with at least 25 years of service. Currently, two retirees meet these eligibility requirements.

D. 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.

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.

SULLIVAN COUNTY COMMUNITY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by First Financial Bank and Trust 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:

First Financial Bank  
First Financial Plaza  
Terre Haute, IN 47802  
Ph. (812) 238-6000

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute. Plan members may contribute up to 15% of their annual covered salary, not to exceed \$13,000. The Hospital is required to match one-half (1/2) of the employee contribution up to 2.5%. In addition, the Hospital is required to contribute 2% of the annual covered payroll. Actual employer and employee contributions to the plan were \$203,832 and \$306,872, respectively. At year end the Hospital had an accrued benefit payable to the plan of \$108,000.

SULLIVAN COUNTY COMMUNITY HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2007, with Michelle Sly-Smith, Chief Executive Officer; and Alan Montella, Assistant Administrator of Finance. Our audit disclosed no material items that warrant comment at this time.