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October 14, 2010

Board of Directors
Wabash County Hospital
710 N. East Street, P.O. Box 548
Wabash, IN 46992-0548

We have reviewed the audit report prepared by BKD, LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Wabash County Hospital, as of December 31, 2009, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

Wabash County Hospital
A Component Unit of Wabash County
Accountants' Report and Financial Statements
December 31, 2009 and 2008



Wabash County Hospital
A Component Unit of Wabash County
December 31, 2009 and 2008

Contents

Independent Accountants' Report on Financial Statements.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets	6
Wabash County Hospital Foundation, Inc. - Statements of Financial Position.....	7
Statements of Revenue, Expenses and Changes in Net Assets.....	8
Wabash County Hospital Foundation, Inc. - Statements of Activities	9
Statements of Cash Flows.....	10
Notes to Financial Statements.....	11
Supplemental Information	
Schedule of Funding Progress	32

Independent Accountants' Report on Financial Statements

Board of Trustees
Wabash County Hospital
Wabash, Indiana

We have audited the accompanying basic financial statements of Wabash County Hospital (Hospital) and its aggregate discretely presented component unit, collectively a component unit of Wabash County, Indiana, as of December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 unit as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, in 2009 the Hospital's aggregate discretely presented component unit changed its method of accounting for its interest in a community foundation by retrospectively restating prior year's financial statements.

The accompanying management's discussion and analysis and other postemployment benefit information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

May 6, 2010

Wabash County Hospital

A Component Unit of Wabash County

Management's Discussion and Analysis

December 31, 2009

Introduction

This management's discussion and analysis of the financial performance of Wabash County Hospital (Hospital) and aggregate discretely presented component unit, provides an overview of the Hospital's financial activities for the years ended December 31, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

Cash and investments of the Hospital increased in 2009 and 2008 by \$964,623 and \$1,124,511, or 5% and 7%, respectively.

The Hospital's net assets increased in each of the past two years with a \$334,405 or 1% increase in 2009 and a \$326,898 or 1% increase in 2008.

The Hospital reported an unrestricted operating loss in 2009 of \$(479,845) and an operating income in 2008 of \$975,092.

Wabash County Hospital

Using This Annual Report

The Hospital's financial statements consist of three statements including a balance sheet; a statement of revenue, expenses and changes in net assets; and a statement of cash flows. These statements and the related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grants or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenue, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets, the difference between assets and liabilities, are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Wabash County Hospital
A Component Unit of Wabash County
Management's Discussion and Analysis
December 31, 2009

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from three defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheets. The Hospital's net assets increased by \$334,405 or 1% in 2009 over 2008 and \$326,898 or 1% in 2008 over 2007, as shown in Table 1. The majority of this increase for 2009 has been used for future plant expansion and/or equipment purchases.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 4,829,158	\$ 5,382,712	\$ 5,657,732
Other current assets	17,697,063	17,411,880	17,425,010
Capital assets, net	6,498,281	6,319,523	6,539,336
Other noncurrent assets	<u>2,832,502</u>	<u>2,573,875</u>	<u>2,001,180</u>
Total assets	<u>\$ 31,857,004</u>	<u>\$ 31,687,990</u>	<u>\$ 31,623,258</u>
Liabilities			
Long-term debt	\$ 99,253	\$ 332,104	\$ 548,995
Other liabilities	<u>2,695,520</u>	<u>2,628,060</u>	<u>2,673,335</u>
Total liabilities	<u>2,794,773</u>	<u>2,960,164</u>	<u>3,222,330</u>
Net Assets			
Invested in capital assets, net of related debt	6,165,603	5,769,694	5,786,028
Restricted expendable	24,500	24,208	24,039
Unrestricted	22,723,049	22,795,059	22,477,521
Noncontrolling interest	<u>149,079</u>	<u>138,865</u>	<u>113,340</u>
Total net assets	<u>29,062,231</u>	<u>28,727,826</u>	<u>28,400,928</u>
Total liabilities and net assets	<u>\$ 31,857,004</u>	<u>\$ 31,687,990</u>	<u>\$ 31,623,258</u>

The Hospital controls a majority interest in a physician joint venture, Wabash MRI, LLC. A distribution of \$25,500 and \$6,400 was paid on the noncontrolling interest stock in 2009 and 2008, respectively.

Wabash County Hospital
A Component Unit of Wabash County
Management's Discussion and Analysis
December 31, 2009

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$334,405 or 1%, as shown in Tables 1 and 2. This increase is made up of several different components and represents an increase of 15% as compared with the increase in net assets for 2008 of \$326,898. The Hospital's change in net assets decreased from \$2,332,498 in 2007 to \$326,898 in 2008, a decrease of 86%.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenue			
Net patient service revenue	\$ 31,777,089	\$ 33,191,061	\$ 33,296,211
Other operating revenue	<u>631,184</u>	<u>671,400</u>	<u>691,550</u>
Total operating revenue	<u>32,408,273</u>	<u>33,862,461</u>	<u>33,987,761</u>
Operating Expenses			
Salaries and wages and employee benefits	20,111,228	19,786,278	18,353,467
Purchased services and professional fees	2,599,860	2,543,969	3,082,158
Depreciation and amortization	1,503,884	1,473,369	1,477,342
Other operating expenses	<u>8,673,146</u>	<u>9,083,753</u>	<u>9,131,223</u>
Total operating expenses	<u>32,888,118</u>	<u>32,887,369</u>	<u>32,044,190</u>
Operating Income (Loss)	<u>(479,845)</u>	<u>975,092</u>	<u>1,943,571</u>
Nonoperating Revenue (Expenses)			
Investment return	870,333	(615,189)	589,928
Contributions	(97,221)	(171,668)	(166,666)
Interest expense	(29,197)	(42,868)	(56,448)
Other nonoperating revenue and expense, net	<u>(6,629)</u>	<u>(3,573)</u>	<u>51,663</u>
Total nonoperating revenue	737,286	(833,298)	418,477
Capital gifts	102,464	191,504	—
Distributions to noncontrolling investors	<u>(25,500)</u>	<u>(6,400)</u>	<u>(29,550)</u>
Increase in Unrestricted Net Assets	<u>\$ 334,405</u>	<u>\$ 326,898</u>	<u>\$ 2,332,498</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss; generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2009, the Hospital has reported an operating loss, while in the two previous years, the Hospital has reported operating income. The Hospital was formed and is operated primarily to serve residents of Wabash County and the surrounding area.

Wabash County Hospital

A Component Unit of Wabash County

Management's Discussion and Analysis

December 31, 2009

Operating results for 2009 decreased by \$1,454,937 or 149% when compared to 2008. The primary components of the decreased operating income are:

- Volume decreases at the Hospital resulted in a decrease in total revenue, while the change in total expenses remained relatively flat.
- Salary and benefit costs increased 2%, or \$324,950.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of interest income and expense, investment earnings and losses and other revenue and expenses. The investment return increased \$1,485,522 or 242% as the Hospital's investment portfolio recovered from the equity market decline in 2008.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenue and expenses for 2009. Investment activity from excess cash from operations decreased in 2009 in comparison to 2008, while capital and related financing activities were consistent with similar activity in 2008.

Capital Assets

At the end of 2009, the Hospital had \$6,498,281 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements. In 2009, the Hospital purchased new capital assets totaling \$1,682,921.

Debt Administration

At December 31, 2009, the Hospital had \$332,678 in a note payable outstanding related to the purchase of diagnostic equipment.

Wabash County Hospital Foundation

In 2009, there were no significant changes with the Foundation's net assets or changes in net assets compared to 2008 other than a change in net asset classification relating to the interest in assets at the Community Foundation of Wabash County (Foundation) as detailed in Note 13 of the financial statements

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning 260.563.3131.

Wabash County Hospital
A Component Unit of Wabash County
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,341,549	\$ 5,125,444
Short-term investments	11,110,145	10,620,546
Restricted short-term investments	24,500	24,208
Patient accounts receivable, net of allowances of \$1,614,000 and \$1,716,000	4,829,158	5,382,712
Other receivables	99,085	326,260
Supplies	903,199	1,001,548
Prepaid expenses and other	218,585	313,874
Total current assets	22,526,221	22,794,592
Noncurrent Cash and Investments	2,832,502	2,573,875
Capital Assets, Net	6,498,281	6,319,523
Total assets	\$ 31,857,004	\$ 31,687,990
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 233,425	\$ 217,725
Accounts payable	740,182	694,813
Salaries and wages payable	1,208,439	1,216,798
Health insurance claims payable	310,663	310,663
Estimated amounts due to third-party payers	160,609	186,465
Other	1,186	1,596
Total current liabilities	2,654,504	2,628,060
Long-Term Debt	99,253	332,104
Other Long-Term Liabilities	41,016	—
Total liabilities	2,794,773	2,960,164
Net Assets		
Invested in capital assets, net of related debt	6,165,603	5,769,694
Restricted, expendable for specific operating activities	24,500	24,208
Unrestricted	22,723,049	22,795,059
Noncontrolling interest	149,079	138,865
Total net assets	29,062,231	28,727,826
Total liabilities and net assets	\$ 31,857,004	\$ 31,687,990

Wabash County Hospital
A Component Unit of Wabash County
Wabash County Hospital Foundation, Inc.
Statements of Financial Position
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u> <u>(Restated)</u>
Assets		
Cash and cash equivalents	\$ 295,481	\$ 327,633
Investments	300,603	272,148
Interest in assets at Community Foundation of Wabash County	<u>415,536</u>	<u>351,817</u>
Total assets	<u>\$ 1,011,620</u>	<u>\$ 951,598</u>
Net Assets		
Unrestricted	\$ 507,277	\$ 437,233
Temporarily restricted	<u>504,343</u>	<u>514,365</u>
Total net assets	<u>\$ 1,011,620</u>	<u>\$ 951,598</u>

Wabash County Hospital
A Component Unit of Wabash County
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$2,259,311 and \$1,832,737	\$ 31,777,089	\$ 33,191,061
Other	<u>631,184</u>	<u>671,400</u>
Total operating revenue	<u>32,408,273</u>	<u>33,862,461</u>
Operating Expenses		
Salaries and wages	13,987,577	14,071,811
Employee benefits	6,123,651	5,714,467
Drugs	1,879,402	2,315,086
Food	361,902	355,340
Insurance	396,283	448,548
Utilities	599,793	660,969
Physician fees	1,195,369	1,075,724
Medical/surgical supplies	2,042,128	1,906,810
Minor equipment	119,033	127,508
Other expenses	917,138	896,713
Other supplies	551,577	619,886
Dues/subscriptions	128,000	123,889
Travel and continuing education	180,642	240,405
Rental expense	455,333	386,953
Professional fees	1,404,491	1,468,245
Repairs and maintenance	1,041,915	1,001,646
Depreciation and amortization	<u>1,503,884</u>	<u>1,473,369</u>
Total operating expenses	<u>32,888,118</u>	<u>32,887,369</u>
Operating Income (Loss)	<u>(479,845)</u>	<u>975,092</u>
Nonoperating Revenue (Expenses)		
Investment income (expense)	870,333	(615,189)
Contributions	(97,221)	(171,668)
Interest expense	(29,197)	(42,868)
Other	<u>(6,629)</u>	<u>(3,573)</u>
Total nonoperating revenue (expenses)	<u>737,286</u>	<u>(833,298)</u>
Excess of Revenue Over Expenses	257,441	141,794
Capital Gifts	102,464	191,504
Less: Distribution to Noncontrolling Interests	<u>(25,500)</u>	<u>(6,400)</u>
Increase in Net Assets	334,405	326,898
Net Assets, Beginning of Year	<u>28,727,826</u>	<u>28,400,928</u>
Net Assets, End of Year	<u>\$ 29,062,231</u>	<u>\$ 28,727,826</u>

Wabash County Hospital
A Component Unit of Wabash County
Wabash County Hospital Foundation, Inc.
Statements of Activities
Years Ended December 31, 2009 and 2008

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue, Gains and Other Support				
Contributions	\$ 41,071	\$ 91,495	\$ —	\$ 132,566
Fund raising	—	95,524	—	95,524
Investment income	28,455	—	—	28,455
Return on assets at Community Foundation of Wabash County	33,719	—	—	33,719
Net assets released from restrictions	<u>197,041</u>	<u>(197,041)</u>	<u>—</u>	<u>0</u>
Total revenue, gains and other support	300,286	(10,022)	—	290,264
Expenses				
Program services	<u>230,242</u>	<u>—</u>	<u>—</u>	<u>230,242</u>
Change in Net Assets	<u>70,044</u>	<u>(10,022)</u>	<u>—</u>	<u>60,022</u>
Net Assets, Beginning of Year, as previously reported	—	—	—	0
Restatement	<u>—</u>	<u>—</u>	<u>—</u>	<u>0</u>
Net Assets, Beginning of Year, as restated	<u>437,233</u>	<u>514,365</u>	<u>—</u>	<u>951,598</u>
Net Assets, End of Year	<u>\$ 507,277</u>	<u>\$ 504,343</u>	<u>\$ 0</u>	<u>\$ 1,011,620</u>

2008 (Restated)

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 27,748	\$ 193,441	\$ —	\$ 221,189
—	136,743	—	136,743
58,731	—	—	58,731
(126,830)	—	—	(126,830)
<u>408,208</u>	<u>(408,208)</u>	<u>—</u>	<u>0</u>
367,857	(78,024)	—	289,833
<u>476,500</u>	<u>—</u>	<u>—</u>	<u>476,500</u>
<u>(108,643)</u>	<u>(78,024)</u>	<u>—</u>	<u>(186,667)</u>
97,229	592,389	448,647	1,138,265
<u>448,647</u>	<u>—</u>	<u>(448,647)</u>	<u>0</u>
<u>545,876</u>	<u>592,389</u>	<u>—</u>	<u>1,138,265</u>
<u>\$ 437,233</u>	<u>\$ 514,365</u>	<u>\$ 0</u>	<u>\$ 951,598</u>

Wabash County Hospital
A Component Unit of Wabash County
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	\$ 32,531,962	\$ 34,269,052
Payments to suppliers and contractors	(11,034,409)	(12,117,629)
Payments to employees	(20,078,571)	(19,592,914)
Other receipts, net	<u>631,463</u>	<u>671,400</u>
Net cash provided by operating activities	<u>2,050,445</u>	<u>3,229,909</u>
Noncapital Financing Activity , noncapital contributions	<u>(97,221)</u>	<u>(171,668)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(217,151)	(203,479)
Interest paid on long-term debt	(29,197)	(42,868)
Purchase of capital assets	(1,682,921)	(1,254,156)
Proceeds from sales of capital assets	—	600
Payment of distributions to noncontrolling interests	<u>(25,500)</u>	<u>(6,400)</u>
Net cash used in capital and related financing activities	<u>(1,954,769)</u>	<u>(1,506,303)</u>
Investing Activities		
Net change in certificates of deposit	821,880	(3,789,000)
Interest and dividends on investments	379,786	468,209
Purchase of investments	(3,971,851)	(4,952,503)
Proceeds from sales of investments	2,892,000	4,561,000
Other nonoperating revenue	<u>95,835</u>	<u>187,931</u>
Net cash provided by (used in) investing activities	<u>217,650</u>	<u>(3,524,363)</u>
Increase (Decrease) in Cash and Cash Equivalents	216,105	(1,972,425)
Cash and Cash Equivalents, Beginning of Year	<u>5,125,444</u>	<u>7,097,869</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,341,549</u>	<u>\$ 5,125,444</u>
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (479,845)	\$ 975,092
Depreciation and amortization	1,503,884	1,473,369
Provision for uncollectible accounts	2,259,311	1,832,737
Changes in operating assets and liabilities		
Patient accounts receivable	(1,705,757)	(1,557,717)
Accounts payable and accrued expenses	36,600	(273,815)
Estimated third-party payer settlements	(25,856)	629,390
Other assets and liabilities	<u>462,108</u>	<u>150,853</u>
Net cash provided by operating activities	<u>\$ 2,050,445</u>	<u>\$ 3,229,909</u>

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Wabash County Hospital (Hospital) is an acute care hospital located in Wabash, Indiana. The Hospital is a component unit of Wabash County as the Board of County Commissioners of Wabash, Indiana appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Wabash County area. It also operates a home health agency in the same geographic area.

The Hospital controls Wabash MRI, LLC (LLC), a for-profit diagnostic center. The LLC is a joint venture between the Hospital and seven local physicians which primarily earns revenue from performing diagnostic services with magnetic resonance imaging (MRI). The Hospital reports the LLC utilizing the blended component unit method in accordance with Governmental Accounting Standards Board Statement No. 39.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenue, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenue and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenue and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At December 31, 2009, the Foundation's cash accounts did not exceed federally insured limits.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured employee health claims and include an estimate of the ultimate costs for these reported claims and claims incurred but not yet reported.

Investments and Investment Income

Nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	3 to 20 years
Buildings and leasehold improvements	5 to 40 years
Equipment	2 to 20 years

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Contributions

From time to time, the Hospital receives contributions from individuals, private organizations and the Wabash County Hospital Foundation, Inc. Revenue from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned plus associated employee payroll taxes whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

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 outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Noncontrolling interest net assets represents capital and noncapital assets less liabilities owned by entities unrelated to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable or noncontrolling interest.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Operating Revenue and Expenses

The Hospital's statements of revenue, expenses and changes in net assets distinguish between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services — the Hospital's principal activity. Nonexchange revenue, including contributions received for purposes other than capital acquisition,

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of Wabash County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income and are no longer subject to U.S. federal examinations by tax authorities for years before 2006.

The LLC's members have elected to have the LLC's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these statements. With a few exceptions, the LLC is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2006.

Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been recorded. It is reasonable that this estimate could change in the near term.

Foundation

Wabash County Hospital Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The Board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by or for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

During the years ended December 31, 2009 and 2008, the Foundation provided \$102,464 and \$191,504, respectively, of monetary support to the Hospital.

Complete financial statements of the Foundation are not available.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Reclassifications

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

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is designated by Medicare as a Critical Access Hospital. Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and per occasion for outpatient services.

Medicaid Disproportionate Share Payments. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive DSH payments. The amounts of these additional DSH funds are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. DSH payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determine that the funds will be received. The Hospital recognized \$661,946 and \$1,493,036 of net patient service revenue related to the DSH program for the years ended December 31, 2009 and 2008, respectively.

In May 2007, the federal Medicare program issued a final ruling that may change the state of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, Congress issued a one-year moratorium on the ruling, which was scheduled to expire in May 2008. In anticipation of the moratorium expiration, the state of Indiana accelerated payments through state fiscal year 2008. A condition of the accelerated payments may result in a payback of the DSH funds. As such, it is reasonably possible estimates associated with the DSH program could change materially in the near term.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Effective January 1, 2008, the state of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future DSH payments may also be negatively affected.

Approximately 39% and 38% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2009 and 2008. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

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

Net patient service revenue increased by approximately \$450,000 in 2009 and approximately \$309,000 in 2008 due to changes in estimates related to third-party settlements.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Indiana state law requires the Hospital to deposit money with any financial institution designated by the state board of finance as depositories for state deposits. The Hospital's funds exceeding the FDIC insurance amount are covered by the Public Deposit Insurance Fund (PDIF). The PDIF insures those state and local public funds deposited in approved financial institutions in the event of financial institution failures. Indiana is the only state that has a PDIF.

The financial institutions holding the Hospital's deposit accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Guarantee Program. Under the program, all noninterest-bearing deposit accounts are fully guaranteed by the FDIC for the entire amount in the account. Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000 for all interest-bearing deposit accounts. These increases in federally insured limits are currently set to expire December 31, 2009.

At December 31, 2009 and 2008, \$17,354,971 and \$15,997,794, respectively, of the Hospital's bank balances are covered by the PDIF or FDIC.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, the Hospital had the following investments and maturities:

Type	December 31, 2009		
	Fair Value	Maturities in Years	
		Less Than 1	1 - 5
Mutual funds	\$ 2,248,903	\$ 2,248,903	\$ —
Certificates of deposit	11,504,032	8,671,530	2,832,502
Money market mutual funds	<u>214,212</u>	<u>214,212</u>	<u>—</u>
	<u>\$ 13,967,147</u>	<u>\$ 11,134,645</u>	<u>\$ 2,832,502</u>

Type	December 31, 2008		
	Fair Value	Maturities in Years	
		Less Than 1	1 - 5
U.S. agencies obligations	\$ 601,054	\$ —	\$ 601,054
Mutual funds	1,750,720	1,750,720	—
Certificates of deposit	10,028,969	8,056,149	1,972,820
Money market mutual funds	<u>837,886</u>	<u>837,886</u>	<u>—</u>
	<u>\$ 13,218,629</u>	<u>\$ 10,644,755</u>	<u>\$ 2,573,874</u>

Interest Rate Risk - The Hospital's investment policy does not address interest rate risk.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's investment policy does not address credit risk. At December 31, 2008, the Hospital's investments in U.S. agencies obligations were all directly guaranteed by the U.S. Government.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address custodial credit risk.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 5,341,549	\$ 5,125,444
Investments	<u>13,967,147</u>	<u>13,218,629</u>
	<u>\$ 19,308,696</u>	<u>\$ 18,344,073</u>

Included in the following balance sheets captions:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 5,341,549	\$ 5,125,444
Short-term investments	11,110,145	10,620,546
Restricted investments, current	24,500	24,208
Noncurrent investments	<u>2,832,502</u>	<u>2,573,875</u>
	<u>\$ 19,308,696</u>	<u>\$ 18,344,073</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 379,786	\$ 468,209
Net increase (decrease) in fair value of investments	<u>491,047</u>	<u>(1,083,398)</u>
	<u>\$ 870,833</u>	<u>\$ (615,189)</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 1,416,168	\$ 1,883,309
Medicaid	104,985	134,899
Other third-party payers	2,648,789	3,061,977
Patients	<u>2,273,216</u>	<u>2,018,527</u>
	6,443,158	7,098,712
Less allowance for uncollectible accounts	<u>(1,614,000)</u>	<u>(1,716,000)</u>
	<u>\$ 4,829,158</u>	<u>\$ 5,382,712</u>

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

	2008				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Less accumulated depreciation					
Land improvements	\$ 228,053	\$ 20,900	\$ —	\$ —	\$ 248,953
Buildings and leasehold improvements	13,533,383	466,233	—	—	13,999,616
Equipment	<u>9,961,166</u>	<u>986,236</u>	<u>(867,975)</u>	<u>—</u>	<u>10,079,427</u>
	<u>23,722,602</u>	<u>1,473,369</u>	<u>(867,975)</u>	<u>—</u>	<u>24,327,996</u>
Capital assets, net	<u>\$ 6,539,336</u>	<u>\$ (219,213)</u>	<u>\$ (600)</u>	<u>\$ 0</u>	<u>\$ 6,319,523</u>

Note 6: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual individual amount of \$125,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the annual individual amounts. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate could change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2009 and 2008 is summarized as follows:

	2009	2008
Balance, beginning of year	\$ 310,663	\$ 282,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,083,550	3,580,465
Claims and expenses paid	<u>(4,083,550)</u>	<u>(3,551,802)</u>
Balance, end of year	<u>\$ 310,663</u>	<u>\$ 310,663</u>

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Note 7: Long-Term Obligations

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

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank	\$ <u>549,829</u>	\$ <u>0</u>	\$ <u>(217,151)</u>	\$ <u>332,678</u>	\$ <u>233,425</u>

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank	\$ <u>753,308</u>	\$ <u>0</u>	\$ <u>(203,479)</u>	\$ <u>549,829</u>	\$ <u>217,725</u>

Note Payable to the Bank

The note payable of Wabash MRI, LLC to the bank is due May 11, 2011, with principal and interest at 6.375%, payable monthly. The note is collateralized by a mortgage on certain capital assets and is guaranteed by the Hospital. The debt service requirements as of December 31, 2009, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2010	\$ 248,269	\$ 233,425	\$ 14,844
2011	105,617	99,253	6,364

Note 8: Restricted and Designated Net Assets

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

	2009	2008
Specific operating activities		
Scholarship Leon Ribley	\$ <u>24,500</u>	\$ <u>24,208</u>

At December 31, 2009 and 2008, approximately \$8,570,000 and \$7,884,000, respectively, of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these net assets for other purposes.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Note 9: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$770,885 and \$974,097 for 2009 and 2008, respectively.

Note 10: Operating Leases

Noncancellable operating leases for medical equipment and satellite facilities expire in various years through 2029. These leases generally contain renewal options for periods ranging from one to five years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals. Rent expense for the years ended December 31, 2009 and 2008, was \$455,333 and \$386,953, respectively.

Future minimum lease payments at December 31, 2009, were:

2010	\$ 270,049
2011	265,329
2012	258,722
2013	232,117
2014	81,815
Thereafter	<u>331,500</u>
Future minimum lease payments	<u>\$ 1,439,532</u>

Note 11: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by Hospital personnel. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contributions made by plan members were \$485,424 and \$500,871 while the Hospital made contributions of \$730,167 and \$732,537 during 2009 and 2008, respectively.

Note 12: Postemployment Health Care Plan

Plan Description

The Hospital offers a group health insurance plan (Plan) to former employees with 15 years or more of service who are at least 55 years of age and not eligible for Medicare benefits or other medical benefits. Sixteen former employees were participating in this plan on December 31, 2009. The Hospital pays a portion of the cost of this plan for participants.

Effective January 1, 2010, Plan terms were amended to former employees with 20 years or more of service who are at least 62 years of age and not eligible for Medicare benefits or other medical benefits.

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Funding Policy

The contribution requirements of Plan members and the Hospital are established and may be amended by the governing body of the Hospital. The postemployment health care benefits are funded on a pay-as-you-go basis. The Hospital funds on a cash basis as benefits are paid. For 2009, Plan members receiving benefits contributed \$28,348 of the total premiums, through their required contribution (depending medical policy selected) of \$230-\$253 per month for retiree-only coverage and \$463 to \$471 for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation to the plan:

	2009	2008
Annual required contribution	\$ 207,984	\$ 160,197
Interest on net OPEB obligation	875	—
Adjustment to annual required contribution	(1,239)	—
Annual OPEB cost (expense)	207,620	160,197
Contributions made	(166,604)	(160,197)
Increase in net OPEB obligation	41,016	—
Net OPEB obligation, beginning of year	—	—
Net OPEB obligation, end of year	\$ 41,016	\$ 0

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 are as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$ 160,197	100%	\$ —
December 31, 2009	207,620	80	41,016

Funded Status and Funding Progress

As of December 31, 2009 and 2008, the Actuarial Accrued Liability (AAL) was \$1,994,692 and \$2,007,728, respectively. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45. The covered payroll

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

(annual payroll of active employees covered by the Plan) was \$13,987,557 and \$13,987,557, and the ratio of the UAAL to the covered payroll was 14% for the years ended December 31, 2009 and 2008.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Benefit obligations shown in this report are computed using the projected unit credit method. Benefits are attributed to service based on the Plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrual liability is amortized over a 30-year closed period level dollar amounts. Cumulative gains and losses are amortized over the same 30-year period as other UAAL. Other assumptions for both the 2009 and 2008 projections are as follows:

- Discount Rate: 4.00%
- Eligibility: Age 55 with 15 years of service until January 1, 2010, and then age 62 with 20 years of service
- Mortality basis: IRS 2009 Annuitant and Nonannuitant tables (sex distinct)
- Inflation: 10% graded down to 5% over 5 years
- Morbidity: Average claim cost age weighted 2% per year
- Election: 100% of participants will elect coverage at retirement
- Retirement:

Age	
62	30.0%
63	40.0
64	45.0
65	35.0
66	35.0
67	25.0
68	35.0
69	50.0
70	100.0

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Turnover:

Age	
20	15.0%
25	11.3
30	7.5
35	6.0
40	4.5
45	3.0
50	1.5
55	—

Note 13: Related Party Transactions

Included among the Hospital's and Foundation's directors and trustees are volunteers from the business, financial and professional community. During the year, cash and/or temporary investments were maintained in banks with which directors were associated. The total Hospital cash and/or investments maintained at these banks were approximately \$6,342,000 and \$6,153,000 at December 31, 2009 and 2008, respectively. Additionally, the Foundation cash and/or investments maintained at these banks were approximately \$490,000 and \$539,000 at December 31, 2009 and 2008, respectively.

Note 14: Wabash County Hospital Foundation, Inc.

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

Investments and Investment Return

Investments at December 31 consist of the following:

	2009	2008
Mutual funds	\$ 172,688	\$ 139,576
Money market mutual funds	51	8,853
Certificate of deposit	127,864	123,719
	\$ 300,603	\$ 272,148

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

	2009	2008
Interest in assets at Community Foundation of Wabash County	\$ <u>415,536</u>	\$ <u>351,817</u>

Total investment return is comprised of the following:

	2009	2008
Interest and dividend income	\$ 2,067	\$ 8,828
Return on assets held at Community Foundation of Wabash County	33,719	(126,830)
Net realized and unrealized gains on investments reported at fair value	<u>26,388</u>	<u>49,903</u>
	\$ <u>62,174</u>	\$ <u>(68,099)</u>

Interest in Assets at Community Foundation of Wabash County

The Foundation established an endowment fund by transferring assets to the Community Foundation of Wabash County. At the time of the transfer, the Foundation granted variance power to the Community Foundation of Wabash County. The Foundation is to receive the interest annually, but none of the principal. The cumulative amount of the retained interest included in the statements of financial position was \$415,536 and \$351,817 at December 31, 2009 and 2008, respectively.

During 2009, the Foundation determined the previously classified permanently restricted net assets relating to the interest in assets at the Community Foundation of Wabash County should be classified as unrestricted net assets since the Board designated assets to the Community Foundation that are not subject to any external donor restrictions. This change had no impact on previously reported total net assets. The statement of financial position as of December 31, 2008, and the statement of activities for the year ended December 31, 2008, have been restated to reflect this change.

	As Previously Reported	Adjustment	As Restated
Return on assets at Community Foundation of Wabash County, unrestricted	\$ —	\$ (126,830)	\$ (126,830)
Return on assets at Community Foundation of Wabash County, permanently restricted	(126,830)	126,830	—
Total revenue, gains and other support, unrestricted	494,687	(126,830)	367,857
Total revenue, gains and other support, permanently restricted	(126,830)	126,830	—
Change in net assets, unrestricted	18,187	(126,830)	(108,643)
Change in net assets, permanently restricted	(126,830)	126,830	—
Transfer unrestricted funds to the Community Foundation of Wabash County, unrestricted	(30,000)	30,000	—

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

	As Previously Reported	Adjustment	As Restated
Transfer unrestricted funds to the Community Foundation of Wabash County, permanently restricted	\$ 30,000	\$ (30,000)	\$ —

Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2009	2008
Critical care	\$ 10,321	\$ 10,016
Cardiac rehabilitation	18,092	78,277
Charity for patients	314	194
Oncology	19,893	18,153
Home health care	80,050	80,783
Nutritional care	5,097	5,097
Skilled nursing care	7,410	7,430
Hospice	198,332	187,742
Prevention care/education	1,439	2,263
Recycling program	1,772	1,772
United Way HHC	3,085	2,204
Employee support committee	5,082	3,831
Building fund	16,275	16,275
Diabetes fund	18,776	18,726
Employee crisis fund	13,821	6,557
Respiratory therapy	10,822	11,351
Mammogram charity	7,183	54
Acute care center	5,132	5,132
Disaster preparedness fund	3,549	11,886
Defibrillators	1,963	3,080
Emergency fund	8,617	13,303
Physician education	3,058	4,393
Employee vision	1,592	3,505
Harvest for health	2,485	2,356
Women's Center	3,179	3,179
Other hospital-based programs	57,004	16,806
	\$ 504,343	\$ 514,365

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2009	2008
Critical care	\$ 305	\$ 2,500
Cardiac rehabilitation	60,183	2,962
Home health care	1,105	1,015
Hospice	8,525	8,709
Prevention care/education	4,366	4,768
United Way HHC	7,819	11,546
Employee support committee	3,241	5,128
Employee crisis fund	1,698	3,671
Respiratory therapy	528	800
Mammogram charity	1,482	1,946
Disaster preparedness fund	29,176	104,916
Emergency fund	7,550	1,516
Employee vision	1,953	4,778
Harvest for health	2,356	2,758
Hydro works pool	—	103,332
Other hospital-based programs	66,754	147,863
	\$ 197,041	\$ 408,208

Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position,

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The Foundation has no liabilities measured at fair value on a recurring basis. Additionally, the Foundation has no assets or liabilities measured at fair value on a recurring basis.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Foundation does not have any Level 2 or 3 investment securities.

Interest in Assets at Community Foundation of Wabash County

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009 and 2008:

	2009			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$ 172,688	\$ 172,688	\$ —	\$ —
Money market mutual funds	51	51	—	—
Interest in assets at Community Foundation of Wabash County	415,536	—	415,536	—

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

	2008			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$ 139,576	\$ 139,576	\$ —	\$ —
Money market mutual funds	8,853	8,853	—	—
Interest in assets at Community Foundation of Wabash County	351,817	—	351,817	—

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 1.

Current Economic Conditions

The current protracted economic decline continues to presents hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions,

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2009 and 2008

constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts that could negatively impact the Hospital's ability to maintain sufficient liquidity.

Note 16: Subsequent Events

Subsequent events have been evaluated through May 6, 2010, which is the date the financial statements were available to be issued.

Supplemental Information

Wabash County Hospital
A Component Unit of Wabash County
Schedule of Funding Progress
Year Ended December 31, 2009

Wabash County Hospital Post-retirement Medical Benefit Plan is a single-employer defined benefit plan administered by Wabash County Hospital. Please refer to Note 12 for more detailed information.

	Year Ended December 31, 2009
Actuarial Valuation Date	December 31, 2009
Actuarial Cost Method	Projected Unit Credit
Actuarial accrued liability	\$ 1,994,692
Actuarial value of assets	<u> —</u>
Total Unfunded Actuarial Liability	\$ <u>1,994,692</u>
Funded Ratio	0.00%
Annual Covered Payroll	\$ 13,987,577
Ratio of Unfunded Actuarial Liability to Covered Payroll	14.00%
Participant Summary:	
Active employees	339
Retirees	<u>16</u>
	<u>355</u>
Actuarial Assumptions	
UAAL amortization method	Level % of Pay 30 years, closed
UAAL amortization period, closed/open	closed
Discount rate	4.00%