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June 15, 2009

Board of Directors
Wabash County Hospital
710 North East Street
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We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. 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, 2008, 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, 2008 and 2007



Wabash County Hospital
A Component Unit of Wabash County
December 31, 2008 and 2007

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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, 2008 and 2007, 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component units as of December 31, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, in 2008 the Foundation (a component unit of Wabash County Hospital) changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

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

BKD, LLP

April 21, 2009

Wabash County Hospital

A Component Unit of Wabash County Management's Discussion and Analysis December 31, 2008

Introduction

This management's discussion and analysis of the financial performance of Wabash County Hospital (the "Hospital") and aggregate discretely presented component unit, provides an overview of the Hospital's financial activities for the years ended December 31, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

Cash and investments of the Hospital increased in 2008 and 2007 by \$1,124,511 and \$1,857,664, or 7% and 12%, respectively.

The Hospital's net assets increased in each of the past two years with a \$326,898 or 1% increase in 2008 and a \$2,332,498 or 9% increase in 2007.

The Hospital reported unrestricted operating income in 2008 of \$333,298 and in 2007 of \$2,356,248.

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, 2008

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 \$326,898 or 1% in 2008 over 2007 and \$2,332,498 or 8.9% in 2007 over 2006, as shown in Table 1. The majority of this increase for 2008 has been used for future plant expansion and/or equipment purchases.

Table 1: Assets, Liabilities and Net Assets

| | 2008 | 2007 | 2006 |
|---|----------------------|----------------------|----------------------|
| Assets | | | |
| Patient accounts receivable, net | \$ 5,382,712 | \$ 5,657,732 | \$ 5,138,207 |
| Other current assets | 17,411,880 | 17,425,010 | 15,433,897 |
| Capital assets, net | 6,319,523 | 6,539,336 | 7,040,424 |
| Other noncurrent assets | <u>2,573,875</u> | <u>2,001,180</u> | <u>1,634,512</u> |
| Total assets | <u>\$ 31,687,990</u> | <u>\$ 31,623,258</u> | <u>\$ 29,247,040</u> |
| Liabilities | | | |
| Long-term debt | \$ 332,104 | \$ 548,995 | \$ 752,481 |
| Other current liabilities | <u>2,628,060</u> | <u>2,673,335</u> | <u>2,426,129</u> |
| Total liabilities | <u>2,960,164</u> | <u>3,222,330</u> | <u>3,178,610</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 5,769,694 | 5,786,028 | 6,076,153 |
| Restricted expendable | 24,208 | 24,039 | 23,816 |
| Unrestricted | 22,795,059 | 22,477,521 | 19,837,110 |
| Reserved for minority interest | <u>138,865</u> | <u>113,340</u> | <u>131,351</u> |
| Total net assets | <u>28,727,826</u> | <u>28,400,928</u> | <u>26,068,430</u> |
| Total liabilities and net assets | <u>\$ 31,687,990</u> | <u>\$ 31,623,258</u> | <u>\$ 29,247,040</u> |

The Hospital controls a majority interest in a physician joint venture, Wabash MRI, LLC. A distribution of \$6,400 and \$23,750 was paid on the minority interest stock in 2008 and 2007, respectively. In 2006, outstanding stock issued to minority interests was \$95,000.

Wabash County Hospital
A Component Unit of Wabash County
Management's Discussion and Analysis
December 31, 2008

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by \$326,898 or 1%, as shown in Tables 1 and 2. This increase is made up of several different components and represents a decrease of 86% as compared with the increase in net assets for 2007 of \$2,332,498. The Hospital's change in net assets increased from \$1,924,509 in 2006 to \$2,332,498 in 2007, an increase of 2%.

Table 2: Operating Results and Changes in Net Assets

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------------|---------------------|---------------------|
| Operating Revenue | | | |
| Net patient service revenue | \$ 33,191,061 | \$ 33,296,211 | \$ 29,996,325 |
| Other operating revenue | <u>671,400</u> | <u>691,550</u> | <u>670,551</u> |
| Total operating revenue | <u>33,862,461</u> | <u>33,987,761</u> | <u>30,666,876</u> |
| Operating Expenses | | | |
| Salaries and wages and employee benefits | 19,786,278 | 18,353,467 | 16,769,887 |
| Purchased services and professional fees | 2,543,969 | 3,082,158 | 2,813,774 |
| Depreciation and amortization | 1,473,369 | 1,477,342 | 1,337,888 |
| Other operating expenses | <u>9,083,753</u> | <u>9,131,223</u> | <u>8,655,643</u> |
| Total operating expenses | <u>32,887,369</u> | <u>32,044,190</u> | <u>29,577,192</u> |
| Operating Income | <u>975,092</u> | <u>1,943,571</u> | <u>1,089,684</u> |
| Nonoperating Revenue (Expenses) | | | |
| Investment return | (615,189) | 589,928 | 772,582 |
| Contributions | (171,668) | (166,666) | (69,445) |
| Interest expense | (42,868) | (56,448) | (41,805) |
| Other nonoperating revenue and expense, net | <u>187,931</u> | <u>45,863</u> | <u>78,493</u> |
| Total nonoperating revenue | (641,794) | 412,677 | 739,825 |
| Minority stock activity | <u>(6,400)</u> | <u>(23,750)</u> | <u>95,000</u> |
| Increase in Unrestricted Net Assets | <u>\$ 326,898</u> | <u>\$ 2,332,498</u> | <u>\$ 1,924,509</u> |

Operating Income

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 each of the past three 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, 2008

Operating income for 2008 decreased by \$968,479 or 50% when compared to 2007. The primary components of the decreased operating income are:

Volume increases at the Hospital resulted in a slight increase in total revenue, while total expenses experienced a 3% increase. Salary and benefit costs increased 7%, or \$900,210.

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 decreased \$1,205,117 or 204% as the Hospital's investment portfolio suffered as the equity market declined. The other category is the donation of capital equipment from the Wabash County Hospital Foundation.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses for 2008. Investment activity from excess cash from operations increased in 2008 in comparison to 2007, while capital and related financing activities were consistent with similar activity in 2007.

Capital Assets

At the end of 2008, the Hospital had \$6,319,523 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Hospital purchased new capital assets totaling \$1,254,156.

Debt Administration

At December 31, 2008, the Hospital had \$549,829 in notes payable outstanding related to the purchase of diagnostic equipment.

Wabash County Hospital Foundation

In 2008, there were no significant changes with the Foundation's net assets or changes in net assets compared to 2007.

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, 2008 and 2007

| | 2008 | 2007 |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,125,444 | \$ 7,097,869 |
| Short-term investments | 10,620,546 | 8,096,305 |
| Restricted short-term investments | 24,208 | 24,039 |
| Patient accounts receivable, net of allowances of \$1,716,000 and \$2,160,000 | 5,382,712 | 5,657,732 |
| Other receivables | 326,260 | 499,841 |
| Estimated amounts due from third-party payers | — | 442,925 |
| Supplies | 1,001,548 | 851,388 |
| Prepaid expenses and other | <u>313,874</u> | <u>412,643</u> |
| Total current assets | 22,794,592 | 23,082,742 |
| Noncurrent Cash and Investments | 2,573,875 | 2,001,180 |
| Capital Assets, Net | <u>6,319,523</u> | <u>6,539,336</u> |
| Total assets | <u>\$ 31,687,990</u> | <u>\$ 31,623,258</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 217,725 | \$ 204,313 |
| Accounts payable | 694,813 | 1,132,151 |
| Salaries and wages payable | 1,216,798 | 1,023,434 |
| Health insurance claims payable | 310,663 | 282,000 |
| Estimated amounts due to third-party payers | 186,465 | — |
| Other | <u>1,596</u> | <u>31,437</u> |
| Total current liabilities | 2,628,060 | 2,673,335 |
| Long-Term Debt | <u>332,104</u> | <u>548,995</u> |
| Total liabilities | <u>2,960,164</u> | <u>3,222,330</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 5,769,694 | 5,786,028 |
| Restricted, expendable for specific operating activities | 24,208 | 24,039 |
| Unrestricted | 22,795,059 | 22,477,521 |
| Reserved for minority interests | <u>138,865</u> | <u>113,340</u> |
| Total net assets | <u>28,727,826</u> | <u>28,400,928</u> |
| Total liabilities and net assets | <u>\$ 31,687,990</u> | <u>\$ 31,623,258</u> |

Wabash County Hospital
A Component Unit of Wabash County
Wabash County Hospital Foundation, Inc.
Statements of Financial Position
December 31, 2008 and 2007

| | 2008 | 2007 |
|---|-------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 327,633 | \$ 393,518 |
| Investments | 272,148 | 296,100 |
| Interest in assets at Community Foundation of Wabash County | 351,817 | 448,647 |
| Total assets | \$ 951,598 | \$ 1,138,265 |
| Net Assets | | |
| Unrestricted | \$ 85,416 | \$ 97,229 |
| Temporarily restricted | 514,365 | 592,389 |
| Permanently restricted | 351,817 | 448,647 |
| Total net assets | \$ 951,598 | \$ 1,138,265 |

Wabash County Hospital
A Component Unit of Wabash County
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|----------------------|----------------------|
| Operating Revenue | | |
| Net patient service revenue, net of provision for uncollectible accounts of \$1,832,737 and \$2,229,339 | \$ 33,191,061 | \$ 33,296,211 |
| Other | <u>671,400</u> | <u>691,550</u> |
| Total operating revenue | <u>33,862,461</u> | <u>33,987,761</u> |
| Operating Expenses | | |
| Salaries and wages | 14,071,811 | 13,171,601 |
| Employee benefits | 5,714,467 | 5,181,866 |
| Drugs | 2,315,086 | 2,511,180 |
| Food | 355,340 | 325,642 |
| Insurance | 448,548 | 415,829 |
| Utilities | 660,969 | 608,203 |
| Physician fees | 1,075,724 | 1,060,898 |
| Medical/surgical supplies | 1,906,810 | 1,988,701 |
| Minor equipment | 127,508 | 120,425 |
| Other expenses | 896,713 | 900,146 |
| Other supplies | 619,886 | 617,988 |
| Dues/subscriptions | 123,889 | 162,620 |
| Travel and continuing education | 240,405 | 190,798 |
| Rental expense | 386,953 | 374,611 |
| Professional fees | 1,468,245 | 2,021,260 |
| Repairs and maintenance | 1,001,646 | 915,080 |
| Depreciation and amortization | <u>1,473,369</u> | <u>1,477,342</u> |
| Total operating expenses | <u>32,887,369</u> | <u>32,044,190</u> |
| Operating Income | <u>975,092</u> | <u>1,943,571</u> |
| Nonoperating Revenue (Expenses) | | |
| Investment income (expense) | (615,189) | 589,928 |
| Contributions | (171,668) | (166,666) |
| Interest expense | (42,868) | (56,448) |
| Other | <u>187,931</u> | <u>45,863</u> |
| Total nonoperating revenue | <u>(641,794)</u> | <u>412,677</u> |
| Excess of Revenue Over Expenses | 333,298 | 2,356,248 |
| Distribution to Wabash MRI, LLC Minority Interest | <u>(6,400)</u> | <u>(23,750)</u> |
| Increase in Net Assets | 326,898 | 2,332,498 |
| Net Assets, Beginning of Year | <u>28,400,928</u> | <u>26,068,430</u> |
| Net Assets, End of Year | <u>\$ 28,727,826</u> | <u>\$ 28,400,928</u> |

Wabash County Hospital
A Component Unit of Wabash County
Wabash County Hospital Foundation, Inc.
Statements of Activities
Years Ended December 31, 2008 and 2007

| | 2008 | | | Total |
|--|------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue, Gains and Other Support | | | | |
| Contributions | \$ 27,748 | \$ 193,441 | \$ — | \$ 221,189 |
| Fund raising | — | 136,743 | — | 136,743 |
| Investment income | 58,731 | — | — | 58,731 |
| Return on assets at Community Foundation of Wabash County | — | — | (126,830) | (126,830) |
| Net assets released from restrictions | <u>408,208</u> | <u>(408,208)</u> | <u>—</u> | <u>0</u> |
| Total revenue, gains and other support | 494,687 | (78,024) | (126,830) | 289,833 |
| Expenses | | | | |
| Program services | <u>476,500</u> | <u>—</u> | <u>—</u> | <u>476,500</u> |
| Change in Net Assets | 18,187 | (78,024) | (126,830) | (186,667) |
| Transfer Nonrestricted Funds to the Community Foundation of Wabash County | | | | |
| | (30,000) | — | 30,000 | 0 |
| Net Assets, Beginning of Year | <u>97,229</u> | <u>592,389</u> | <u>448,647</u> | <u>1,138,265</u> |
| Net Assets, End of Year | <u>\$ 85,416</u> | <u>\$ 514,365</u> | <u>\$ 351,817</u> | <u>\$ 951,598</u> |

2007

| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---------------------|-----------------------------------|-----------------------------------|---------------------|
| \$ 25,713 | \$ 108,153 | \$ — | \$ 133,866 |
| — | 130,623 | — | 130,623 |
| 40,785 | — | — | 40,785 |
| — | — | 17,019 | 17,019 |
| <u>202,837</u> | <u>(202,837)</u> | <u>—</u> | <u>0</u> |
| 269,335 | 35,939 | 17,019 | 322,293 |
| <u>228,804</u> | <u>—</u> | <u>—</u> | <u>228,804</u> |
| 40,531 | 35,939 | 17,019 | 93,489 |
| (30,000) | — | 30,000 | 0 |
| <u>86,698</u> | <u>556,450</u> | <u>401,628</u> | <u>1,044,776</u> |
| <u>\$ 97,229</u> | <u>\$ 592,389</u> | <u>\$ 448,647</u> | <u>\$ 1,138,265</u> |

Wabash County Hospital
A Component Unit of Wabash County
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|--|---------------|---------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 34,269,052 | \$ 31,957,612 |
| Payments to suppliers and contractors | (12,117,629) | (11,674,208) |
| Payments to employees | (19,592,914) | (18,318,777) |
| Other receipts, net | 671,400 | 691,550 |
| Net cash provided by operating activities | 3,229,909 | 2,656,177 |
| Noncapital Financing Activity, noncapital contributions | (171,668) | (166,666) |
| Capital and Related Financing Activities | | |
| Principal paid on long-term debt | (203,479) | (210,963) |
| Interest paid on notes payable to banks and long-term debt | (42,868) | (56,448) |
| Purchase of capital assets | (1,254,156) | (976,254) |
| Proceeds from sales of capital assets | 600 | — |
| Payment of Wabash MRI, LLC distributions to minority interest | (6,400) | (23,750) |
| Net cash used in capital and related financing activities | (1,506,303) | (1,267,415) |
| Investing Activities | | |
| Net change in certificates of deposit | (3,789,000) | (229,813) |
| Interest and dividends on investments | 468,209 | 709,821 |
| Purchase of investments | (4,952,503) | (4,164,186) |
| Proceeds from sales of investments | 4,561,000 | 3,921,722 |
| Other nonoperating revenue | 187,931 | 45,863 |
| Net cash provided by (used in) investing activities | (3,524,363) | 283,407 |
| Increase (Decrease) in Cash and Cash Equivalents | (1,972,425) | 1,505,503 |
| Cash and Cash Equivalents, Beginning of Year | 7,097,869 | 5,592,366 |
| Cash and Cash Equivalents, End of Year | \$ 5,125,444 | \$ 7,097,869 |
| Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 975,092 | \$ 1,943,571 |
| Depreciation and amortization | 1,473,369 | 1,477,342 |
| Provision for uncollectible accounts | 1,832,737 | 2,229,339 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (1,557,717) | (2,748,864) |
| Accounts payable and accrued expenses | (273,815) | 543,214 |
| Estimated third-party payer settlements | 629,390 | (731,456) |
| Other assets and liabilities | 150,853 | (56,969) |
| Net cash provided by operating activities | \$ 3,229,909 | \$ 2,656,177 |

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007

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

All 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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

| | |
|--------------------------------------|---------------|
| 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, 2008 and 2007

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 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 three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

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

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,

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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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Hospital has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending December 31, 2009. The Hospital has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

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

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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.

During the years ended December 31, 2008 and 2007, the Foundation provided \$187,853 and \$45,863, 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 FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. 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 2007 financial statements to conform to the 2008 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, extend 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 \$1,493,036 and \$764,209 of net patient service revenue related to the DSH program for the years ended December 31, 2008 and 2007, 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

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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.

Related to the May 2007 moratorium and various other government changes, management cannot reasonably estimate the state fiscal year 2009 Medicaid DSH payments. As such, no receivable at December 31, 2008, was recognized.

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 38% and 39% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2008 and 2007. 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 \$309,000 and \$1,081,000, in 2008 and 2007, respectively, 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

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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, 2008 and 2007, \$15,997,794 and \$12,476,051, respectively, of the Hospital's bank balances are covered by the PDIF or FDIC.

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 | Fair Value | December 31, 2008 | |
|---------------------------|----------------------|----------------------|---------------------|
| | | 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> |

| Type | Fair Value | December 31, 2007 | |
|---------------------------|----------------------|---------------------|---------------------|
| | | Maturities in Years | |
| | | Less Than 1 | 1 - 5 |
| U.S. agencies obligations | \$ 1,970,081 | \$ 529,983 | \$ 1,440,098 |
| Mutual funds | 2,827,166 | 2,827,166 | — |
| Certificates of deposit | 5,303,908 | 4,742,826 | 561,082 |
| Money market mutual funds | <u>20,369</u> | <u>20,369</u> | <u>—</u> |
| | <u>\$ 10,121,524</u> | <u>\$ 8,120,344</u> | <u>\$ 2,001,180</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 and 2007, the Hospital's investments in U.S. agencies obligations were all directly guaranteed by the U.S. Government.

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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.

Summary of Carrying Values

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

| | 2008 | 2007 |
|----------------|----------------------|----------------------|
| Carrying value | | |
| Deposits | \$ 5,125,444 | \$ 7,097,869 |
| Investments | <u>13,218,629</u> | <u>10,121,524</u> |
| | <u>\$ 18,344,073</u> | <u>\$ 17,219,393</u> |

Included in the following balance sheets captions:

| | 2008 | 2007 |
|---------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 5,125,444 | \$ 7,097,869 |
| Short-term investments | 10,620,546 | 8,096,305 |
| Restricted investments, current | 24,208 | 24,039 |
| Noncurrent investments | <u>2,573,875</u> | <u>2,001,180</u> |
| | <u>\$ 18,344,073</u> | <u>\$ 17,219,393</u> |

Investment Income

Investment income for the years ended December 31 consisted of:

| | 2008 | 2007 |
|---|---------------------|-------------------|
| Interest and dividend income | \$ 468,209 | \$ 709,821 |
| Net decrease in fair value of investments | <u>(1,083,398)</u> | <u>(119,893)</u> |
| | <u>\$ (615,189)</u> | <u>\$ 589,928</u> |

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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:

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Medicare | \$ 1,883,309 | \$ 1,729,005 |
| Medicaid | 134,899 | 125,812 |
| Other third-party payers | 3,061,977 | 3,970,305 |
| Patients | 2,018,527 | 1,992,610 |
| | 7,098,712 | 7,817,732 |
| Less allowance for uncollectible accounts | (1,716,000) | (2,160,000) |
| | <u>\$ 5,382,712</u> | <u>\$ 5,657,732</u> |

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2008 and 2007, was:

| | 2008 | | | | |
|--|------------------------------|---------------------|------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | \$ 475,705 | \$ — | \$ — | \$ — | \$ 475,705 |
| Land improvements | 323,779 | 24,943 | — | — | 348,722 |
| Buildings and leasehold improvements | 16,088,937 | 99,866 | — | 98,710 | 16,287,513 |
| Equipment | 13,123,342 | 875,275 | (868,575) | — | 13,130,042 |
| Construction in progress | 250,175 | 254,072 | — | (98,710) | 405,537 |
| | <u>30,261,938</u> | <u>1,254,156</u> | <u>(868,575)</u> | <u>—</u> | <u>30,647,519</u> |
| Less accumulated depreciation | | | | | |
| Land | | | | | |
| improvements | 228,053 | 20,900 | — | — | 248,953 |
| Buildings and leasehold improvements | 13,533,383 | 466,233 | — | — | 13,999,616 |
| Equipment | 9,961,166 | 986,236 | (867,975) | — | 10,079,427 |
| | <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> |

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| | 2007 | | | | Ending Balance |
|--|----------------------|---------------------|------------------|------------------|---------------------|
| | Beginning Balance | Additions | Disposals | Transfers | |
| Land | \$ 475,705 | \$ — | \$ — | \$ — | \$ 475,705 |
| Land improvements | 314,416 | 9,363 | — | — | 323,779 |
| Buildings and leasehold improvements | 15,888,600 | 74,279 | — | 126,058 | 16,088,937 |
| Equipment | 12,802,439 | 560,478 | (367,625) | 128,050 | 13,123,342 |
| Construction in progress | <u>172,149</u> | <u>332,134</u> | <u>—</u> | <u>(254,108)</u> | <u>250,175</u> |
| | <u>29,653,309</u> | <u>976,254</u> | <u>(367,625)</u> | <u>—</u> | <u>30,261,938</u> |
| Less accumulated depreciation | | | | | |
| Land | | | | | |
| improvements | 208,384 | 19,669 | — | — | 228,053 |
| Buildings and leasehold improvements | 13,074,656 | 458,727 | — | — | 13,533,383 |
| Equipment | <u>9,329,845</u> | <u>998,946</u> | <u>(367,625)</u> | <u>—</u> | <u>9,961,166</u> |
| | <u>22,612,885</u> | <u>1,477,342</u> | <u>(367,625)</u> | <u>—</u> | <u>23,722,602</u> |
| Capital assets, net | \$ <u>7,040,424</u> | \$ <u>(501,088)</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>6,539,336</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 \$100,000. 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.

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Activity in the Hospital's accrued employee health claims liability during 2008 and 2007 is summarized as follows:

| | 2008 | 2007 |
|---|--------------------|--------------------|
| Balance, beginning of year | \$ 282,000 | \$ 282,000 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 3,580,465 | 3,334,025 |
| Claims and expenses paid | <u>(3,551,802)</u> | <u>(3,334,025)</u> |
| Balance, end of year | <u>\$ 310,663</u> | <u>\$ 282,000</u> |

Note 7: Long-Term Obligations

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

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

| | 2007 | | | | |
|------------------------------|------------------------------|------------------|---------------------|---------------------------|----------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Note payable to bank (a) | \$ 944,208 | \$ — | \$ (190,900) | \$ 753,308 | \$ 204,313 |
| Capital lease obligations | <u>20,063</u> | <u>—</u> | <u>(20,063)</u> | <u>—</u> | <u>—</u> |
| Total long-term debt | <u>\$ 964,271</u> | <u>\$ 0</u> | <u>\$ (210,963)</u> | <u>\$ 753,308</u> | <u>\$ 204,313</u> |

Notes Payable to the Bank

(a) 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

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capital assets and is guaranteed by the Hospital. The debt service requirements as of December 31, 2008, are as follows:

| Years Ending December 31 | Total to be Paid | Principal | Interest |
|-----------------------------|---------------------|------------|-----------|
| 2009 | \$ 246,347 | \$ 217,725 | \$ 28,622 |
| 2010 | 247,180 | 232,851 | 14,329 |
| 2011 | 100,784 | 99,253 | 1,531 |

Capital Lease Obligations

The Hospital was obligated under a lease for certain equipment that was accounted for as a capital lease. The lease was paid in full during 2007.

Note 8: Restricted and Designated Net Assets

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

| | 2008 | 2007 |
|-------------------------------|------------------|------------------|
| Specific operating activities | | |
| Scholarship Leon Ribley | \$ <u>24,208</u> | \$ <u>24,039</u> |

At December 31, 2008 and 2007, approximately \$7,884,000 and \$7,200,000, 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.

Note 9: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$974,097 and \$724,336 for 2008 and 2007, respectively.

Note 10: Operating Leases

Noncancellable operating leases for medical equipment and satellite facilities expire in various years through 2011. 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, 2008 and 2007, was \$386,953 and \$374,611, respectively.

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Future minimum lease payments at December 31, 2008, were:

| | | |
|-------------------------------|----|----------------|
| 2009 | \$ | 92,990 |
| 2010 | | 11,326 |
| 2011 | | <u>6,607</u> |
| Future minimum lease payments | \$ | <u>110,923</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 \$500,871 and \$454,690 while the Hospital made contributions of \$732,537 and \$690,571 during 2008 and 2007, respectively.

Note 12: Wabash County Hospital Foundation, Inc.

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. Statement No. 116 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. Statement No. 117 establishes standards for external financial statements of not-for-profit organizations and requires a statement of 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:

| | <u>2008</u> | | <u>2007</u> |
|------------------------|-------------------|-----------|----------------|
| Mutual funds | \$ 139,576 | \$ | 170,941 |
| Certificate of deposit | <u>132,572</u> | <u></u> | <u>125,159</u> |
| | <u>\$ 272,148</u> | <u>\$</u> | <u>296,100</u> |

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| | 2008 | 2007 |
|-------------------------------|-------------|-------------|
| Diabetes fund | \$ 18,726 | \$ 19,114 |
| Employee crisis fund | 6,557 | 3,550 |
| Radiology education | — | 90,720 |
| Respiratory therapy | 11,351 | 12,151 |
| Mammogram charity | 54 | — |
| Acute care center | 5,132 | 5,010 |
| Disaster preparedness fund | 11,886 | 90,801 |
| Defibrillators | 3,080 | 6,098 |
| Emergency fund | 13,303 | 9,558 |
| Physician education | 4,393 | 5,184 |
| Employee vision | 3,505 | 8,264 |
| Harvest for health | 2,356 | 5,091 |
| Women's Center | 3,179 | 3,179 |
| Other hospital-based programs | 16,806 | 17,125 |
| | \$ 514,365 | \$ 592,389 |

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are restricted to:

| | 2008 | 2007 |
|---|-------------|-------------|
| Interest in assets at Community Foundation of Wabash County | \$ 351,817 | \$ 448,647 |

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.

| | 2008 | 2007 |
|----------------------------|-------------|-------------|
| Critical care | \$ 2,500 | \$ 5,097 |
| Cardiac rehabilitation | 2,962 | — |
| Home health care | 1,015 | 2,705 |
| Hospice | 8,709 | 8,317 |
| Prevention care/education | 4,768 | 2,470 |
| United Way HHC | 11,546 | 6,010 |
| Employee support committee | 5,128 | 5,163 |
| Employee crisis fund | 3,671 | 7,066 |
| Respiratory therapy | 800 | 486 |
| Mammogram charity | 1,946 | 863 |

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| | 2008 | 2007 |
|-------------------------------|------------|------------|
| Disaster preparedness fund | \$ 104,916 | \$ 50,938 |
| Judy Stout memorial fund | — | 400 |
| Emergency fund | 1,516 | 4,876 |
| Employee vision | 4,778 | 180 |
| Harvest for health | 2,758 | 4,057 |
| Women's Center | — | 50,000 |
| Hydro works pool | 103,332 | — |
| Other hospital-based programs | 147,863 | 54,209 |
| | \$ 408,208 | \$ 202,837 |

Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 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. FAS 157 also establishes 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 valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. The Foundation has no 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 funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing

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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 3 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 FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 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 | \$ 148,429 | \$ 148,429 | \$ — | \$ — |
| Interest in assets at Community Foundation of Wabash County | 351,817 | — | 351,817 | — |

Note 13: Contingencies

Litigation

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

Wabash County Hospital
A Component Unit of Wabash County
Notes to Financial Statements
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Note 14: 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.

Malpractice Claims

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

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

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

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