

B37052

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

AUDIT REPORT  
OF

PUTNAM COUNTY HOSPITAL  
A COMPONENT UNIT OF  
PUTNAM COUNTY, INDIANA

January 1, 2009 to December 31, 2009



**FILED**  
05/25/2010



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials .....	2
Independent Auditor's Report .....	3
Basic Financial Statements:	
Statement of Net Assets .....	4
Statement of Revenues, Expenses, and Changes in Net Assets .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-18
Audit Results and Comments:	
Official Bond .....	19
Transaction Recording .....	19
Exit Conference .....	20

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Dennis Weatherford	01-01-09 to 12-31-10
Treasurer	Dennis Weatherford	01-01-09 to 12-31-10
Chairman of the Hospital Board	David Bray	01-01-09 to 12-31-10
President of the Board of County Commissioners	Gene Beck Kristina Warren	01-01-09 to 12-31-09 01-01-10 to 12-31-10



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the business-type activities of the Putnam County Hospital (Hospital) as of and for the year ended December 31, 2009, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over reporting. 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 opinions.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

STATE BOARD OF ACCOUNTS

May 13, 2010

PUTNAM COUNTY HOSPITAL  
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA  
STATEMENT OF NET ASSETS  
December 31, 2009

<u>Assets</u>	<u>Primary Government</u>
Current assets:	
Cash and cash equivalents	\$ 4,137,859
Short-term investments	509,646
Patient accounts receivable, net of estimated uncollectibles of \$3,642,705	4,551,135
Supplies and other current assets	1,921,716
Noncurrent cash and investments:	
Internally designated	3,049,004
Restricted by contributors and grantors	129,098
Capital assets:	
Land and construction in progress	295,805
Depreciable capital assets, net of accumulated depreciation	15,056,848
Other assets	162,247
Total assets	\$ 29,813,358
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 729,417
Accounts payable and accrued expenses	1,524,611
Estimated third-party payor settlements	430,777
Other current liabilities	380,161
Long-term debt, net of current maturities	9,957,733
Total liabilities	13,022,699
Net assets:	
Invested in capital assets, net of related debt	4,665,503
Restricted:	
Expendable for specific operating activities	129,098
Unrestricted	11,996,058
Total net assets	16,790,659
Total liabilities and net assets	\$ 29,813,358

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

PUTNAM COUNTY HOSPITAL  
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended December 31, 2009

	<u>Primary Government</u>
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 31,688,759
Other	<u>352,979</u>
Total operating revenues	<u>32,041,738</u>
Operating expenses:	
Salaries and benefits	19,863,317
Medical supplies and drugs	4,392,028
Insurance	673,994
Other supplies	1,453,721
Depreciation and amortization	1,966,962
Other operating expense	<u>3,927,903</u>
Total operating expenses	<u>32,277,925</u>
Operating loss	<u>(236,187)</u>
Nonoperating revenues (expenses):	
Investment income	74,310
Interest expense	(438,851)
Noncapital grants and contributions	185,316
Gain on sale of equipment	4,470
Nonoperating expense	<u>(217,114)</u>
Total nonoperating revenues (expenses)	<u>(391,869)</u>
Decrease in net assets	(628,056)
Net assets beginning of the year	<u>17,418,715</u>
Net assets end of the year	<u>\$ 16,790,659</u>

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

PUTNAM COUNTY HOSPITAL  
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2009

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 31,249,018
Payments to suppliers and contractors	(6,750,533)
Payments to employees	(20,551,802)
Other receipts and payments, net	<u>(3,249,924)</u>
Net cash provided by operating activities	<u>696,759</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions net of expenses	(31,798)
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(631,951)
Interest paid on long-term debt	(438,851)
Purchase of capital assets	<u>(498,166)</u>
Net cash used by capital and related financing activities	<u>(1,568,968)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>74,310</u>
Net decrease in cash and cash equivalents	(829,697)
Cash and cash equivalents at beginning of year	<u>8,145,658</u>
Cash and cash equivalents at end of year	<u>\$ 7,315,961</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 7,186,863
Restricted cash and cash equivalents	<u>129,098</u>
Total cash and cash equivalents	<u>\$ 7,315,961</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (236,187)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	1,966,962
(Increase) in current assets:	
Patient accounts receivable (net)	(439,741)
Supplies and other current assets	(490,190)
Other assets	(55,446)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	314,846
Other current liabilities	(688,485)
Estimated third-party payor settlements	<u>325,000</u>
Net cash provided in operating activities	<u>\$ 696,759</u>

Noncash investing, capital, and financing activities:

The Hospital entered into capital lease obligations of \$527,643 for new equipment in 2009.

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

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Putnam County.

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

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

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

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Use of Estimates

The preparation of financial statements in conformity with 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

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

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

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

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

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

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II G.

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

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Grants and Contributions

From time to time, the Hospital receives grants from Putnam County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

F. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

G. New Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. New patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

H. Premium Revenue

The Hospital had agreements with various health management organizations (HMO's) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMO's make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

I. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

J. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

K. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 72 days.

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

L. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Investments

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

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

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

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2009, the Hospital had deposit balances in the amount of \$7,315,962.

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2009, the Hospital had \$509,646 invested in certificates of deposit.

B. Accounts Receivable and Payable

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

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 5,885,479
Receivable from Medicare	1,582,194
Receivable from Medicaid	<u>726,167</u>

Total patient accounts receivable	8,193,840
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Less allowance for uncollectible amounts	<u>3,642,705</u>
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Patient accounts receivable, net	<u><u>\$ 4,551,135</u></u>
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Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 827,381
Payable to suppliers	670,749
Other	<u>26,481</u>

Total accounts payable and accrued expenses	<u><u>\$ 1,524,611</u></u>
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C. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 159,364	\$ -	\$ -	\$ 159,364
Construction in progress	<u>52,569</u>	<u>83,872</u>	<u>-</u>	<u>136,441</u>
Total capital assets, not being depreciated	<u>211,933</u>	<u>83,872</u>	<u>-</u>	<u>295,805</u>
Capital assets, being depreciated:				
Land improvements	296,079	-	-	296,079
Buildings and improvements	25,779,685	269,438	-	26,049,123
Equipment	<u>12,616,035</u>	<u>686,855</u>	<u>18,828</u>	<u>13,284,062</u>
Totals	<u>38,691,799</u>	<u>956,293</u>	<u>18,828</u>	<u>39,629,264</u>
Less accumulated depreciation for:				
Land improvements	(208,065)	(8,068)	-	(216,133)
Buildings and improvements	(12,373,039)	(1,087,918)	-	(13,460,957)
Equipment	<u>(10,045,752)</u>	<u>(868,402)</u>	<u>(18,828)</u>	<u>(10,895,326)</u>
Totals	<u>(22,626,856)</u>	<u>(1,964,388)</u>	<u>(18,828)</u>	<u>(24,572,416)</u>
Total capital assets, being depreciated, net	<u>16,064,943</u>	<u>(1,008,095)</u>	<u>-</u>	<u>15,056,848</u>
Total primary government capital assets, net	<u>\$ 16,276,876</u>	<u>\$ (924,223)</u>	<u>\$ -</u>	<u>\$ 15,352,653</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2009</u>	<u>Committed</u>
Putnam County Hospital Brick Renovation	\$ 135,042	\$ 1,695,158
Putnam County Hospital Heliport Lighting	<u>1,399</u>	<u>101</u>
Totals	<u>\$ 136,441</u>	<u>\$ 1,695,259</u>

E. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for copiers. Rental expenditures for this lease were \$24,780. The following is a schedule by years of future minimum rental payments as of year end:

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2010	\$	24,780
2011		24,780
2012		<u>18,585</u>
 Total	 \$	 <u>68,145</u>

2. Capital Leases

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

2010	\$	142,527
2011		133,035
2012		121,644
2013		121,644
2014		<u>101,370</u>
 Total minimum lease payments		 620,220
 Less amount representing interest		 <u>77,485</u>
 Present value of net minimum lease payments	 \$	 <u>542,735</u>

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

Equipment	\$	587,986
Accumulated depreciation		<u>(23,506)</u>
 Total	 \$	 <u>564,480</u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$5,416,965, are as follows:

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2010	\$	1,003,960
2011		1,003,960
2012		1,003,960
2013		1,003,960
2014		1,003,960
2015-2019		5,019,800
2020-2024		5,019,800
2025-2029		<u>501,980</u>
 Total	 \$	 <u>15,561,380</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 49,747	\$ 527,643	\$ 34,655	\$ 542,735	\$ 115,755
Notes payable	<u>10,729,318</u>	<u>-</u>	<u>584,903</u>	<u>10,144,415</u>	<u>613,662</u>
 Total long-term liabilities	 <u>\$ 10,779,065</u>	 <u>\$ 527,643</u>	 <u>\$ 619,558</u>	 <u>\$ 10,687,150</u>	 <u>\$ 729,417</u>

G. Endowments and Restricted Net Assets

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

	<u>2009</u>
Restricted by contributors:	
General	<u>\$ 129,098</u>

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

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 36 percent and 13 percent, respectively, of the Hospital's net patient revenue for the year ended 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2009 net patient service revenue decreased approximately \$2,018,524 due to prior-year retroactive adjustments in excess of amounts previously estimated.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, 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.

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$1,162,382 for 2009.

J. Internally Designated Assets

Non-current cash and investments internally designated include the following:

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

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Internally designated:  
Funded depreciation:  
Cash and cash equivalents      \$ 3,049,004

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees and dependents (excluding postemployment benefits); and natural disasters.

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

Medical Benefits to Employees and Dependents

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

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

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Event

The Putnam County Hospital will begin a construction project April 1, 2010, at the cost of \$1,830,200. The project will be financed through a USDA conditional loan.

C. Contingent Liabilities

Litigation

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

D. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

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

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

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

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

Based upon the levels as defined the investments as of December 31, 2009, are classified as follows:

Hospital Investment Type	December 31, 2009	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets For Identical (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 509,646	\$ -	\$ 509,646	\$ -

E. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur.

F. Pension Plan

Defined Contribution Pension Plan

Putnam County Hospital Employee Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the

PUTNAM COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Lincoln Financial Group  
P.O. Box 2340  
Fort Wayne, IN 46801-2340  
Ph. 800-248-0838

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are required to contribute 8% of the annual covered payroll. A second provision of the plan established pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended, allows for voluntary contributions for the purpose of purchasing retirement annuity contracts. Employer and employee contributions to the plan were \$545,288 and \$546,390, respectively.

PUTNAM COUNTY HOSPITAL  
AUDIT RESULTS AND COMMENTS

OFFICIAL BOND

As stated in prior Report B34612, the Employee Dishonesty Coverage Policy was not on file in the office of the County Recorder.

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

TRANSACTION RECORDING

As stated in prior Report B34612, the Hospital's financial statements included transactions recording rental income and expense of \$222,495 charged to the physician practices. There was no money exchanged in these transactions. The financial statements have been adjusted to eliminate these transactions.

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

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

PUTNAM COUNTY HOSPITAL  
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2010, with Dennis Weatherford, Executive Director; and Roger Boruff, Chief Financial Officer. The officials concurred with our audit findings. Other officials in attendance were David Bray, Chairman of the Hospital Board; Fred Mann, Hospital Board member; and Debbie S. Krumreich, Accounting Manager.