

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

AUDIT REPORT
OF

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

January 1, 2010 to December 31, 2010



FILED
06/20/2011

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Michelle Sly-Smith	01-01-10 to 12-31-11
Treasurer	Michelle Sly-Smith	01-01-10 to 12-31-11
Chairman of the Hospital Board	Alice M. Dodd Henry Bobe	07-01-09 to 06-30-10 07-01-10 to 06-30-11
President of the Board of County Commissioners	John McCammon Tim Abrams	01-01-10 to 12-31-10 01-01-11 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the business-type activities and the aggregate discretely presented component unit of the Sullivan County Community Hospital (Hospital) as of and for the year ended December 31, 2010, 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 present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2010, 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 12, 2011

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 1,307,939	\$ -	\$ 1,307,939
Home health receivables - net	73,443	-	73,443
Employed physician receivable	143,436	-	143,436
Patient accounts receivable, net of estimated uncollectibles of \$4,349,294	2,013,807	-	2,013,807
Other receivables	473,874	-	473,874
Supplies	295,018	-	295,018
Prepaid expenses	222,935	-	222,935
Noncurrent cash and investments:			
Internally designated	13,100,401	-	13,100,401
Held by trustee for debt service	1,450,992	-	1,450,992
Capital assets:			
Land	1,042,227	-	1,042,227
Depreciable capital assets, net of accumulated depreciation	12,785,088	743,410	13,528,498
Construction in progress	266,612	-	266,612
Total assets	<u>\$ 33,175,772</u>	<u>\$ 743,410</u>	<u>\$ 33,919,182</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable	\$ 392,442	\$ -	\$ 392,442
Accounts receivable credit balances	143,927	-	143,927
Salaries payable	319,996	-	319,996
Payroll taxes and deductions	212,580	-	212,580
Accrued employee benefits	972,252	-	972,252
Accrued interest payable	2,500	-	2,500
Estimated third-party payor settlements	550,000	-	550,000
Other current liabilities	12,287	273,875	286,162
Current portion long term debt	620,000	-	620,000
Long-term debt, net of current maturities	2,690,000	-	2,690,000
Total liabilities	<u>5,915,984</u>	<u>273,875</u>	<u>6,189,859</u>
Net assets:			
Invested in capital assets, net of related debt	10,783,927	469,535	11,253,462
Restricted:			
For debt service	1,450,992	-	1,450,992
Unrestricted	15,024,869	-	15,024,869
Total net assets	<u>27,259,788</u>	<u>469,535</u>	<u>27,729,323</u>
Total liabilities and net assets	<u>\$ 33,175,772</u>	<u>\$ 743,410</u>	<u>\$ 33,919,182</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2010

	Primary Government	Discrete Component Unit	Total Reporting Entity
Inpatient revenue:			
Net patient service revenue (net of provision for bad debt)	\$ 26,119,610	\$ -	\$ 26,119,610
Home health revenue	607,343	-	607,343
Hospice revenue	154,678	-	154,678
Other	147,459	-	147,459
	<u>27,029,090</u>	<u>-</u>	<u>27,029,090</u>
Total operating revenues	<u>27,029,090</u>	<u>-</u>	<u>27,029,090</u>
Operating expenses:			
Salaries and benefits	11,734,002	-	11,734,002
Fees - physicians	1,029,340	-	1,029,340
Fees - other	1,833,635	-	1,833,635
Supplies	2,612,320	-	2,612,320
Utilities	397,740	-	397,740
Repair and maintenance	625,596	-	625,596
Leases and rentals	106,604	-	106,604
Insurance	302,449	-	302,449
Bad debts	4,301,945	-	4,301,945
Other expenses	528,945	-	528,945
Depreciation and amortization	1,652,367	-	1,652,367
	<u>25,124,943</u>	<u>-</u>	<u>25,124,943</u>
Total operating expenses	<u>25,124,943</u>	<u>-</u>	<u>25,124,943</u>
Operating income	<u>1,904,147</u>	<u>-</u>	<u>1,904,147</u>
Nonoperating revenue (expenses)			
Interest income - general	3,897	-	3,897
Interest income - funded depreciation	150,033	-	150,033
Interest income - debt service fund	44	-	44
Loss on investments	(4,451)	-	(4,451)
Other income	680,806	197,763	878,569
Interest expense	(61,337)	-	(61,337)
Other expense	(934,537)	(308,508)	(1,243,045)
	<u>(165,545)</u>	<u>(110,745)</u>	<u>(276,290)</u>
Total nonoperating expenses	<u>(165,545)</u>	<u>(110,745)</u>	<u>(276,290)</u>
Increase (decrease) in net assets	1,738,602	(110,745)	1,627,857
Net assets beginning of the year	<u>25,521,186</u>	<u>580,280</u>	<u>26,101,466</u>
Net assets end of the year	<u>\$ 27,259,788</u>	<u>\$ 469,535</u>	<u>\$ 27,729,323</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2010

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 22,769,703
Payments to suppliers and contractors	(7,252,923)
Payments to employees	<u>(11,699,184)</u>
Net cash provided by operating activities	<u>3,817,596</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(985,000)
Interest paid on long-term debt	(61,137)
Purchase of capital assets	<u>(1,309,326)</u>
Net cash used by capital and related financing activities	<u>(2,355,463)</u>
Cash flows from investing activities:	
Interest and dividends on investments	149,523
Purchase of investments	<u>(652,293)</u>
Net cash used by investing activities	<u>(502,770)</u>
Net increase in cash and cash equivalents	959,363
Cash and cash equivalents at beginning of year	<u>14,899,969</u>
Cash and cash equivalents at end of year	<u>\$ 15,859,332</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 14,408,340
Restricted cash and cash equivalents	<u>1,450,992</u>
Total cash and cash equivalents	<u>\$ 15,859,332</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,904,147
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization	1,652,367
Decrease (Increase) in current assets:	
Patient accounts receivable	120,933
Home health receivable	(7,028)
Employed physicians receivable	(85,643)
Supplies	19,801
Other assets	(243,071)
Prepaid expenses	39,564
Increase (decrease) in current liabilities:	
Accounts payable	150,117
Accounts receivable credit balances	5,151
Salaries payable	34,818
Payroll taxes and liabilities	19,979
Accrued employee benefits	(210,252)
Accrued interest payable	200
Estimated third-party payor settlements	256,513
Other current liabilities	<u>160,000</u>
Net cash provided in operating activities	<u>\$ 3,817,596</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Discretely Presented Component Unit

The Sullivan County Community Hospital Fitness Center is a significant discretely presented component unit of the Hospital. The primary government appoints a voting majority of the Fitness Center's board and a financial benefit/burden relationship exists between the Hospital and the Fitness Center.

A separate audit report is not prepared for the discretely presented component unit.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. 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 90 days.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

Open-end mutual funds are reported at fair value.

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

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

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

2. Use of Estimates

The preparation of financial statements in conformity with 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:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 5,000	Straight-line	5 to 20 years
Buildings and improvements	5,000	Straight-line	10 to 20 years
Equipment	5,000	Straight-line	3 to 10 years

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

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

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.

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

D. Grants and Contributions

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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. Net 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. 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.

I. Supplies

Inventories of drugs and other supplies are stated at the lower of cost or market.

J. Compensated Absences

A liability exists for those employees who prior to December 4, 2002, had accrued sick leave. No liability is reported for sick leave for employees hired after that date.

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

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

K. 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.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded 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 bank balances are 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, 2010, the Hospital had the following investments:

Investment Type	Primary Government Market Value
U.S. treasuries and securities	\$ 2,416,293
Mutual bond funds	2,896,373
Certificates of deposit	<u>7,770,000</u>
Total	<u>\$ 13,082,666</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy for concentration of credit risk for investments.

Foreign Currency Risk

The Hospital does not have a formal policy for foreign currency risk for investments.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable and Payable

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

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 3,945,474
Receivable from Medicare	1,058,391
Receivable from Medicaid	265,136
Unbilled receivables	<u>1,094,100</u>
 Total patient accounts receivable	 6,363,101
 Less allowance for uncollectible amounts	 <u>4,349,294</u>
 Patient accounts receivable, net	 <u><u>\$ 2,013,807</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,504,828
Payable to suppliers	392,442
Other	<u>982,589</u>
 Total accounts payable and accrued expenses	 <u><u>\$ 2,879,859</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,042,227	\$ -	\$ -	\$ 1,042,227
Construction in progress	<u>30,742</u>	<u>235,870</u>	<u>-</u>	<u>266,612</u>
 Total capital assets, not being depreciated	 <u>1,072,969</u>	 <u>235,870</u>	 <u>-</u>	 <u>1,308,839</u>
Capital assets, being depreciated:				
Buildings and improvements	15,194,340	-	-	15,194,340
Equipment	<u>11,874,904</u>	<u>1,210,096</u>	<u>102,567</u>	<u>12,982,433</u>
 Totals	 <u>27,069,244</u>	 <u>1,210,096</u>	 <u>102,567</u>	 <u>28,176,773</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	10,796,079	1,428,559	-	12,224,638
Equipment	<u>3,010,597</u>	<u>223,810</u>	<u>67,360</u>	<u>3,167,047</u>
Totals	<u>13,806,676</u>	<u>1,652,369</u>	<u>67,360</u>	<u>15,391,685</u>
Total capital assets, being depreciated, net	<u>13,262,568</u>	<u>(442,273)</u>	<u>35,207</u>	<u>12,785,088</u>
Total primary government capital assets, net	<u>\$ 14,335,537</u>	<u>\$ (206,403)</u>	<u>\$ 35,207</u>	<u>\$ 14,093,927</u>
<u>Discretely Presented Component Units</u>				
Capital assets, being depreciated:				
Land improvements	\$ 9,583	\$ -	\$ -	\$ 9,583
Buildings and Improvements	1,084,397	-	-	1,084,397
Equipment	<u>141,094</u>	<u>-</u>	<u>-</u>	<u>141,094</u>
Totals	<u>1,235,074</u>	<u>-</u>	<u>-</u>	<u>1,235,074</u>
Less accumulated depreciation for:				
Buildings, improvements and equipment	<u>424,090</u>	<u>67,574</u>	<u>-</u>	<u>491,664</u>
Total discretely presented component units, net	<u>\$ 810,984</u>	<u>\$ (67,574)</u>	<u>\$ -</u>	<u>\$ 743,410</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2010</u>	<u>Committed</u>
Sullivan/Ivy Tech POB	\$ 55,555	\$ 1,023,942
Meditech 6.0 upgrade	41,062	410,618
Campus roads	<u>169,995</u>	<u>401,731</u>
Totals	<u>\$ 266,612</u>	<u>\$ 1,836,291</u>

E. Leases

Operating Leases

The Hospital has entered into an operating lease having an initial or remaining noncancelable term exceeding one year for an electronic medication processing system (Pyxis System). Rental expenditures in 2010 for this lease were \$77,124. The following is a schedule by years of future minimum rental payments as of year end:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2011	\$	77,124
2012		77,124
2013		<u>77,124</u>
Total	\$	<u>231,372</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1998 Indiana Health Facility Financing Authority Revenue Bonds	Variable	<u>\$ 3,310,000</u>

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>
2011	\$ 620,000
2012	655,000
2013	695,000
2014	740,000
2015	<u>600,000</u>
Total	<u>\$ 3,310,000</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Indiana Health Facility Financing Authority	<u>\$ 4,295,000</u>	<u>\$ -</u>	<u>\$ 985,000</u>	<u>\$ 3,310,000</u>	<u>\$ 620,000</u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2010, are required by terms of the financing agreement between the Hospital and IHFFA:

Revenue from operations	\$ 27,029,090
Investment income	153,974
Less:	
Expenses (excluding depreciation and amortization)	<u>23,472,576</u>
Total net revenue available for debt service	<u>\$ 3,710,488</u>
Funded debt service for year	<u>\$ 2,340,000</u>
Historical debt service coverage ratio	<u>1.59</u>

G. 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:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Inpatient and outpatient acute services and defined capital 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 predetermined reimbursement methodology.

Revenue from the Medicare and Medicaid programs accounted for approximately 29 percent and 30 percent of the Hospital's net patient revenue for the years ended 2009 and 2010, respectively, before any retroactive adjustments from the cost report results.

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, but not materially, in the near term.

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.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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H. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$93,066 for 2010.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

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

Internally designated:

Funded depreciation:

Investments	\$ 13,082,666
Accrued interest receivable	<u>17,735</u>

Total internally designated	<u><u>\$ 13,100,401</u></u>
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III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the General Fund where expenses are accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. However, claim liabilities cannot be reasonably estimated.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Contingent Liabilities

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

C. Postemployment Benefits

The Hospital offers to pay 60 percent of healthcare premiums that the Hospital offers to its employees for any employee who retires from the Hospital on or after attaining age 60 with at least 25 consecutive years of service. The Hospital and retiree provide 60 percent and 40 percent, respectively, of these benefits. Expenditures for the benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2010, there were no retired employee participants.

D. Restatements

For the year ended December 31, 2010, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Hospital. The following schedule presents a summary of restated beginning balances. Prior period adjustments represent a correction of accounts receivable and accounts payable between the Hospital and the Fitness Center.

Opinion Unit	Balance as Reported December 31, 2009	Prior Period Adjustments	Balance as Restated January 1, 2010
Hospital	\$ 25,774,946	\$ (253,760)	\$ 25,521,186
Fitness center	789,244	(208,964)	580,280

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

F. Pension Plan

Defined Contribution Pension Plan

Sullivan County Community Hospital Retirement Security Plan and 403(b) Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Principal Financial group as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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Principal Financial Group
P.O. Box 8704
Wilmington, DE 19899
Ph. (866) 518-8969

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 may contribute up to \$16,500 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 2.5%. In addition, the Hospital is required to contribute 2 percent of the annual covered payroll. Employer and employee contributions to the plan were \$261,770 and \$506,032, respectively. At year end the Hospital had an accrued benefit payable to the plan of \$150,000.

SULLIVAN COUNTY COMMUNITY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on May 12, 2011, with Michelle Sly-Smith, Chief Executive Officer; Alan Montella, Assistant Administrator of Finance; and Henry Bobe, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.