

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, 2011 to December 31, 2011



FILED
01/09/2013

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Dennis Weatherford	01-01-11 to 12-31-12
Treasurer	Dennis Weatherford	01-01-11 to 12-31-12
Chairman of the Hospital Board	David Bray	01-01-11 to 12-31-12
President of the Board of County Commissioners	Gene Beck Kristina Warren	01-01-11 to 12-31-11 01-01-12 to 12-31-12



STATE OF INDIANA
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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, 2011, 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 opinions 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 District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Hospital, as of December 31, 2011, 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.

Management has omitted the Management Discussion and Analysis that Government Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

STATE BOARD OF ACCOUNTS

October 24, 2012

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Primary Government</u>
Current assets:	
Cash and cash equivalents	\$ 3,147,894
Short-term investments	-
Patient accounts receivable, net of estimated uncollectibles of \$5,841,021.90	4,627,535
Supplies and other current assets	1,846,969
Noncurrent cash and investments:	
Internally designated	3,105,066
Restricted by contributors and grantors	74,334
Capital assets:	
Land and construction in progress	317,654
Depreciable capital assets, net of accumulated depreciation	16,456,577
Other assets	<u>195,837</u>
Total assets	<u>\$ 29,771,865</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Current maturities of long-term debt	\$ 1,187,379
Accounts payable and accrued expenses	1,473,733
Estimated third-party payor settlements	486,031
Other current liabilities	433,655
Long-term debt, net of current maturities	<u>13,629,984</u>
Total liabilities	<u>17,210,782</u>
Net assets:	
Invested in capital assets, net of related debt	1,956,868
Restricted:	
Expendable for specific operating activities	74,334
Unrestricted	<u>10,529,881</u>
Total net assets	<u>12,561,083</u>
Total liabilities and net assets	<u>\$ 29,771,865</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 REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	Primary Government
Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 30,339,501
Other	<u>254,719</u>
Total operating revenues	<u>30,594,220</u>
Operating expenses:	
Salaries and benefits	20,175,480
Medical supplies, drugs and food	4,201,868
Insurance	584,988
Other supplies	1,374,641
Depreciation and amortization	1,714,072
Other operating expense	<u>4,209,355</u>
Total operating expenses	<u>32,260,403</u>
Operating loss	<u>(1,666,183)</u>
Nonoperating revenues (expenses):	
Investment income	33,869
Interest expense	(520,169)
Loss on sale of equipment	(70,106)
Noncapital grants and contributions	81,421
Other nonoperating revenue	633,070
Nonoperating expense	<u>(93,088)</u>
Total nonoperating revenues (expenses)	<u>64,997</u>
Decrease in net assets	(1,601,186)
Net assets beginning of the year	<u>14,162,269</u>
Net assets end of the year	<u><u>\$ 12,561,083</u></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, 2011

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 30,217,876
Payments to suppliers and contractors	(6,293,952)
Payments to employees	(20,320,027)
Other receipts and payments, net	<u>(3,629,619)</u>
Net cash provided by operating activities	<u>(25,722)</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions net of expenses	(30,628)
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(710,668)
Interest paid on long-term debt	(520,169)
Proceeds from issuance of long-term debt	1,683,213
Acquisition and construction of capital assets	<u>(615,922)</u>
Net cash used by capital and related financing activities	<u>(163,546)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	1,036,286
Interest and dividends on investments	<u>33,869</u>
Net cash provided by investing activities	<u>1,070,155</u>
Net increase in cash and cash equivalents	850,259
Cash and cash equivalents at beginning of year	<u>5,477,034</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,327,293</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 6,252,959
Restricted cash and cash equivalents	<u>74,334</u>
Total cash and cash equivalents	<u><u>\$ 6,327,293</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,666,183)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	1,714,072
(Increase) decrease in current assets:	
Patient accounts receivable (net)	(121,625)
Supplies and other current assets	(151,659)
Other assets	56,903
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(37,699)
Other current liabilities	(144,548)
Estimated third-party payor settlements	<u>325,017</u>
Net cash provided in operating activities	<u><u>\$ (25,722)</u></u>

Noncash investing, capital, and financing activities:

The Hospital entered into a capital lease obligation of \$1,496,460 for new equipment and software in 2011.

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 outpatient 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 90 days.

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

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.

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.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

	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. The total interest expense incurred by the Hospital during the current year was \$520,169. None the amount was included as part of the cost of capital assets under construction.

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.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

The financial statements report \$74,334 of restricted assets, none of which is restricted by enabling legislation.

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 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. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note II G.

F. 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.

G. 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.

H. 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.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. 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.

J. 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.

K. Supplies

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

L. 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.

M. 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.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

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, 2011, the Hospital had deposit balances in the amount of \$6,363,335.

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, 2011, the Hospital had no investments.

PUTNAM COUNTY 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:

<u>Patient Accounts Receivable</u>	
Receivable from patients and their insurance carriers	\$ 6,804,562
Receivable from Medicare	2,617,139
Receivable from Medicaid	<u>1,046,856</u>
Total patient accounts receivable	10,468,557
Less allowance for uncollectible amounts	<u>5,841,022</u>
Patient accounts receivable, net	<u><u>\$ 4,627,535</u></u>
<u>Accounts Payable and Accrued Expenses</u>	
Payable to employees (including payroll taxes)	\$ 715,104
Payable to suppliers	735,882
Other	<u>22,747</u>
Total accounts payable and accrued expenses	<u><u>\$ 1,473,733</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, 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	\$ 159,364	\$ -	\$ -	\$ 159,364
Construction in progress	<u>339,872</u>	<u>154,335</u>	<u>335,918</u>	<u>158,290</u>
Total capital assets, not being depreciated	<u>499,236</u>	<u>154,335</u>	<u>335,918</u>	<u>317,654</u>
Capital assets, being depreciated:				
Land improvements	297,478	-	\$ -	297,478
Buildings and improvements	28,166,713	249,818	-	28,416,531
Equipment	<u>13,725,679</u>	<u>2,004,449</u>	-	<u>15,730,128</u>
Totals	<u>42,189,870</u>	<u>2,254,267</u>	-	<u>44,444,137</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Land improvements	(225,227)	(3,556)	-	(228,783)
Buildings and improvements	(14,543,654)	(1,066,686)	-	(15,610,340)
Equipment	(11,507,181)	(641,257)	-	(12,148,438)
Totals	(26,276,062)	(1,711,498)	-	(27,987,560)
Total capital assets, being depreciated, net	15,913,808	542,769	-	16,456,577
Total primary government capital assets, net	<u>\$ 16,413,044</u>	<u>\$ 697,105</u>	<u>\$ 335,918</u>	<u>\$ 16,774,231</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2011	Committed
Putnam County Hospital Room Remodels 4th Floor	\$ 17,435	\$ 35,000
Putnam County Hospital ER Remodel 2011	9,838.86	10,000.00
Putnam County Hospital Heliport 2011	3,195.15	3,500.00
Putnam County Hospital PCH Signage 2011	845.54	1,000.00
Putnam County Hospital CPSI	126,975.69	1,500,000.00
Totals	<u>\$ 158,290</u>	<u>\$ 1,549,500</u>

E. Leases

1. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a postage machine and copy machines. Rental expenditures for these leases were \$29,407.68. The following is a schedule by years of future minimum rental payments as of year end:

2012	\$ 26,755
2013	2,103
2014	1,584
2015	264
Total	<u>\$ 30,705</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

2012	\$ 564,439
2013	552,943
2014	502,625
2015	330,115
2016	<u>110,122</u>
Total minimum lease payments	2,060,244
Less amount representing interest	<u>133,187</u>
Present value of net minimum lease payments	<u>\$ 1,927,057</u>

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

Equipment	\$ 2,404,059
Accumulated depreciation	<u>(830,179)</u>
Total	<u>\$ 1,573,879</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$5,179,627, are as follows:

	<u>Principle</u>	<u>Interest</u>
2012	\$ 698,673	\$ 590,488
2013	733,613	555,548
2014	785,318	503,843
2015	804,053	485,108
2016	855,704	429,951
2017-2021	4,602,968	1,632,460
2022-2026	3,249,862	647,914
2027-2031	573,647	264,351
2032-2035	<u>584,307</u>	<u>72,126</u>
Totals	<u>\$ 12,888,144</u>	<u>\$ 5,181,789</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, 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	\$ 776,611	1,496,461	346,014	\$ 1,927,057	\$ 488,706
Notes payable	<u>11,747,839</u>	<u>1,683,213</u>	<u>540,747</u>	<u>12,890,305</u>	<u>698,673</u>
Total long-term liabilities	<u>\$ 12,524,450</u>	<u>\$ 3,179,674</u>	<u>\$ 886,761</u>	<u>\$ 14,817,362</u>	<u>\$ 1,187,379</u>

G. Endowments and Restricted Net Assets

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

	<u>2011</u>
Restricted by contributors:	
General	<u>\$ 74,334</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

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 as a percent of the Hospital's net patient revenues cannot be accurately determined. 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 2011 net patient service revenue has not been adjusted for any prior-year settlements or years that are no longer subject to audits, reviews, and investigations.

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 \$1,004,736.02 (less than 1 percent) for 2011.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. 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 IC 16-22-3-13.

Internally designated:

Funded depreciation:

Cash and cash equivalents	<u>\$ 3,105,066</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; medical benefits to employees, retirees, 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 3 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 this risk did not exceed commercial insurance coverage in the past three years

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

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Events

The Hospital entered into two lease agreements at the end of 2010. No accounting entries were made in 2010 as installation was not completed until the spring of 2011. One lease was with Fleetwood Leasing for Nuance Dictation Equipment in the amount of \$114,957, lease term of 30 months and monthly payments of \$3,832, beginning on April 8, 2011. A second lease with Fuji Financial Services for a Picture Archiving and Communications System (PACS) in the amount of \$1,321,463, lease term of 60 months and monthly payments of \$22,024, was accepted on May 11, 2011.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 and corporate equity securities.

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 corporate and municipal bonds that trade infrequently and privately held securities 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, 2011, are classified as follows:

E. 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 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:

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The Hospital fully funds the plan by contributing 4 percent 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 \$257,420.07 and \$426,615.89, respectively.

PUTNAM COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2012, with Dennis Weatherford, Executive Director/Treasurer; Roger Boruff, Chief Financial Officer; David Bray, Chairman of the Hospital Board; Mary Stephenson, Accounting Manager and Andrea Mescall, Cost Accountant/Financial Analyst. Our audit disclosed no material items that warrant comment at this time.