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January 23, 2013

Board of Directors
Wabash County Hospital
P.O. Box 548
710 N. East Street
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We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2011 to December 31, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Wabash County Hospital, as of December 31, 2011 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Accountants' Report and Financial Statements
December 31, 2011 and 2010



Wabash County Hospital
A Component Unit of Wabash County, Indiana
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Wabash County Hospital
Wabash, Indiana

We have audited the accompanying basic financial statements of Wabash County Hospital (Hospital) and its discretely presented component unit, collectively, a component unit of the Wabash County, Indiana, as of December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital and its discretely presented component unit as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and post-retirement medical benefit plan information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

June 8, 2012

Wabash County Hospital

A Component Unit of Wabash County, Indiana

Management's Discussion and Analysis

December 31, 2011

Introduction

This management's discussion and analysis of the financial performance of Wabash County Hospital (Hospital) and its discretely presented component unit, provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

Cash and investments of the Hospital decreased in 2011 by \$681,551 or 4%. Cash and investments of the Hospital decreased in 2010 by \$2,234,407 or 12%.

The Hospital's net assets decreased by \$18,994 or 0.1% and \$506,142 or 1.8% in 2011 and 2010, respectively.

The Hospital reported an operating loss of \$(104,584) and \$(570,984) in 2011 and 2010, respectively.

Wabash County Hospital

Using This Annual Report

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

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

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

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

Wabash County Hospital

A Component Unit of Wabash County, Indiana

Management's Discussion and Analysis

December 31, 2011

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheets. The Hospital's net assets decreased by \$18,994 or 0.1% in 2011 over 2010 and decreased by \$(506,142) or 1.8% in 2010 over 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	\$ 6,728,983	\$ 6,412,974	\$ 4,829,158
Other current assets	15,364,615	15,438,101	17,697,063
Capital assets, net	5,899,407	6,761,466	6,498,281
Other noncurrent assets	<u>3,224,442</u>	<u>3,134,933</u>	<u>2,832,502</u>
Total assets	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>	<u>\$ 31,857,004</u>
Liabilities			
Long-term debt	\$ —	\$ —	\$ 99,253
Other liabilities	<u>2,680,352</u>	<u>3,191,385</u>	<u>2,695,520</u>
Total liabilities	<u>2,680,352</u>	<u>3,191,385</u>	<u>2,794,773</u>
Net Assets			
Invested in capital assets, net of related debt	5,899,407	6,761,466	6,165,603
Restricted expendable	24,912	24,912	24,500
Unrestricted	22,505,919	21,633,927	22,723,049
Noncontrolling interest	<u>106,857</u>	<u>135,784</u>	<u>149,079</u>
Total net assets	<u>28,537,095</u>	<u>28,556,089</u>	<u>29,062,231</u>
Total liabilities and net assets	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>	<u>\$ 31,857,004</u>

The Hospital controls a majority interest in a physician joint venture, Wabash MRI, LLC. A distribution of \$40,180 and \$38,332 was paid on the noncontrolling interest stock in 2011 and 2010, respectively.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Management's Discussion and Analysis
December 31, 2011

Operating Results and Changes in the Hospital's Net Assets

The Hospital was formed and is operated primarily to serve residents of Wabash County and the surrounding area.

In 2011, the Hospital's net assets decreased by \$18,994 or 0.1%, as shown in Tables 1 and 2. This decrease is due primarily to continuing operating losses. In 2010, net assets decreased by \$(506,142) or 1.8%.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenue			
Net patient service revenue	\$ 36,633,444	\$ 33,489,260	\$ 31,777,089
Other operating revenue	<u>694,872</u>	<u>573,351</u>	<u>631,184</u>
Total operating revenue	<u>37,328,316</u>	<u>34,062,611</u>	<u>32,408,273</u>
Operating Expenses			
Salaries and wages and employee benefits	21,110,379	19,331,785	20,111,228
Purchased services and professional fees	5,554,677	4,811,639	2,996,143
Depreciation and amortization	1,642,021	1,703,968	1,503,884
Other operating expenses	<u>9,151,256</u>	<u>8,786,203</u>	<u>8,276,863</u>
Total operating expenses	<u>37,458,333</u>	<u>34,633,595</u>	<u>32,888,118</u>
Operating Loss	<u>(130,017)</u>	<u>(570,984)</u>	<u>(479,845)</u>
Nonoperating Revenue (Expenses)			
Investment return	129,455	16,598	870,333
Contributions	—	—	(97,221)
Interest expense	—	(27,095)	(29,197)
Other nonoperating revenue and expense, net	<u>(22,905)</u>	<u>(3,872)</u>	<u>(6,629)</u>
Total nonoperating revenue (expenses)	106,550	(14,369)	737,286
Capital gifts	44,653	117,543	102,464
Distributions to noncontrolling investors	<u>(40,180)</u>	<u>(38,332)</u>	<u>(25,500)</u>
Increase (Decrease) in Net Assets	<u>\$ (18,994)</u>	<u>\$ (506,142)</u>	<u>\$ 334,405</u>

Wabash County Hospital

A Component Unit of Wabash County, Indiana

Management's Discussion and Analysis

December 31, 2011

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating loss; generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2011 and 2010, the Hospital reported operating losses.

Operating results for 2011 increased by \$440,967 or 78% when compared to 2010. The primary components of the increased operating income are increases in net patient service revenue.

Operating results for 2010 decreased by \$91,139 or 19% when compared to 2009, due primarily to increases in uncompensated care.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of interest income and expense, investment earnings and losses and other revenue and expenses. The investment return increased \$112,857 or 680% as in 2011 from 2010 due to changes in market conditions.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenue and expenses for 2011.

Capital Assets

At the end of 2011, the Hospital had \$5,899,407 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements. In 2011, the Hospital purchased new capital assets totaling \$786,380.

Wabash County Hospital Foundation

In 2011, there were no significant changes with the Foundation's net assets or changes in net assets compared to 2010.

Contacting the Hospital's Financial Management

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

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Balance Sheets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,782,337	\$ 5,380,650
Short-term investments	8,855,782	8,833,794
Restricted cash and investments, current	830,177	24,912
Patient accounts receivable, net of allowances of \$2,118,000 and \$2,735,000	6,728,983	6,412,974
Other receivables	236,063	158,964
Estimated amount due from third-party payers	570,403	—
Supplies	890,608	806,522
Prepaid expenses and other	<u>199,245</u>	<u>233,259</u>
Total current assets	22,093,598	21,851,075
Noncurrent Cash and Investments	2,924,442	2,834,933
Capital Assets, Net	5,899,407	6,761,466
Other Assets	<u>300,000</u>	<u>300,000</u>
Total assets	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 684,930	\$ 701,255
Salaries and wages payable	1,463,709	1,282,700
Health insurance claims payable	446,263	310,663
Estimated amounts due to third-party payers	<u>—</u>	<u>850,000</u>
Total current liabilities	2,594,902	3,144,618
Other Long-Term Liabilities	<u>85,450</u>	<u>46,767</u>
Total liabilities	<u>2,680,352</u>	<u>3,191,385</u>
Net Assets		
Invested in capital assets, net of related debt	5,899,407	6,761,466
Restricted, expendable for specific operating activities	24,912	24,912
Unrestricted	22,505,919	21,633,927
Noncontrolling interest	<u>106,857</u>	<u>135,784</u>
Total net assets	<u>28,537,095</u>	<u>28,556,089</u>
Total liabilities and net assets	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Wabash County Hospital Foundation, Inc.
Statements of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 310,808	\$ 253,417
Investments	328,206	320,540
Interest in assets at Community Foundation of Wabash County	<u>471,229</u>	<u>463,865</u>
Total assets	\$ <u>1,110,243</u>	\$ <u>1,037,822</u>
Net Assets		
Unrestricted	\$ 586,260	\$ 575,569
Temporarily restricted	<u>523,983</u>	<u>462,253</u>
Total net assets	\$ <u>1,110,243</u>	\$ <u>1,037,822</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$2,245,097 and \$3,207,626	\$ 36,633,444	\$ 33,489,260
Other	<u>694,872</u>	<u>573,351</u>
Total operating revenue	<u>37,328,316</u>	<u>34,062,611</u>
Operating Expenses		
Salaries and wages	15,571,156	14,454,790
Employee benefits	5,539,223	4,876,995
Drugs	2,123,791	1,962,252
Food	343,343	371,630
Utilities	695,125	630,226
Medical/surgical supplies	2,700,282	2,444,810
Minor equipment	99,789	272,098
Other expenses	1,051,443	1,007,513
Other supplies	399,707	444,511
Dues/subscriptions	122,704	123,087
Travel and continuing education	120,188	61,194
Rental expense	526,315	495,881
Professional fees	5,554,677	4,811,639
Repairs and maintenance	968,569	973,001
Depreciation and amortization	<u>1,642,021</u>	<u>1,703,968</u>
Total operating expenses	<u>37,458,333</u>	<u>34,633,595</u>
Operating Loss	<u>(130,017)</u>	<u>(570,984)</u>
Nonoperating Revenue (Expenses)		
Investment return	129,455	16,598
Interest expense	—	(27,095)
Other	<u>(22,905)</u>	<u>(3,872)</u>
Total nonoperating revenue (expenses)	<u>106,550</u>	<u>(14,369)</u>
Deficiency of Revenue Over Expenses	(23,467)	(585,353)
Capital Gifts	44,653	117,543
Less: Distributions to Noncontrolling Interests	<u>(40,180)</u>	<u>(38,332)</u>
Decrease in Net Assets	(18,994)	(506,142)
Net Assets, Beginning of Year	<u>28,556,089</u>	<u>29,062,231</u>
Net Assets, End of Year	<u>\$ 28,537,095</u>	<u>\$ 28,556,089</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Wabash County Hospital Foundation, Inc.
Statements of Activities
Years Ended December 31, 2011 and 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Contributions	\$ 47,693	\$ 105,873	\$ —	\$ 153,566
Fund raising	—	87,526	—	87,526
Investment return	12,861	—	—	12,861
Return on assets at Community Foundation of Wabash County	(22,635)	—	—	(22,635)
Net assets released from restrictions	<u>131,669</u>	<u>(131,669)</u>	<u>—</u>	<u>0</u>
Total revenue, gains and other support	169,588	61,730	—	231,318
Expenses				
Program services	<u>158,897</u>	<u>—</u>	<u>—</u>	<u>158,897</u>
Change in Net Assets	10,691	61,730	—	72,421
Net Assets, Beginning of Year	<u>575,569</u>	<u>462,253</u>	<u>—</u>	<u>1,037,822</u>
Net Assets, End of Year	<u>\$ 586,260</u>	<u>\$ 523,983</u>	<u>\$ 0</u>	<u>\$ 1,110,243</u>

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 38,933	\$ 85,271	\$ —	\$ 124,204
—	102,469	—	102,469
19,937	—	—	19,937
28,329	—	—	28,329
<u>229,830</u>	<u>(229,830)</u>	<u>—</u>	<u>0</u>
317,029	(42,090)	—	274,939
<u>248,737</u>	<u>—</u>	<u>—</u>	<u>248,737</u>
68,292	(42,090)	—	26,202
<u>507,277</u>	<u>504,343</u>	<u>—</u>	<u>1,011,620</u>
\$ <u>575,569</u>	\$ <u>462,253</u>	\$ <u>0</u>	\$ <u>1,037,822</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 34,819,933	\$ 32,534,956
Payments to suppliers and contractors	(14,636,730)	(13,555,952)
Payments to employees	(20,890,687)	(19,251,773)
Other receipts, net	<u>701,290</u>	<u>581,699</u>
Net cash provided by (used in) operating activities	<u>(6,194)</u>	<u>308,930</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	—	(332,678)
Interest paid on long-term debt	—	(27,095)
Purchase of capital assets	(786,380)	(1,975,501)
Payment of distributions to noncontrolling interests	<u>(40,180)</u>	<u>(38,332)</u>
Net cash used in capital and related financing activities	<u>(826,560)</u>	<u>(2,373,606)</u>
Investing Activities		
Net change in certificates of deposit	—	(243,073)
Investment income	129,455	16,598
Purchase of investments	(111,497)	(1,307,038)
Deposit to restricted property escrow	(805,265)	3,823,619
Intangible assets acquired from purchase of physician practice	—	(300,000)
Other nonoperating revenue	<u>21,748</u>	<u>113,671</u>
Net cash provided by (used in) investing activities	<u>(765,559)</u>	<u>2,103,777</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,598,313)	39,101
Cash and Cash Equivalents, Beginning of Year	<u>5,380,650</u>	<u>5,341,549</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,782,337</u>	<u>\$ 5,380,650</u>
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	\$ (130,017)	\$ (570,984)
Depreciation and amortization	1,642,021	1,703,968
Loss on disposal of capital assets	6,418	8,348
Provision for uncollectible accounts	2,245,097	3,207,626
Changes in operating assets and liabilities		
Patient accounts receivable	(2,561,106)	(4,791,442)
Accounts payable and accrued expenses	164,684	34,148
Estimated third-party payer settlements	(1,420,403)	689,391
Other assets and liabilities	<u>47,112</u>	<u>27,875</u>
Net cash provided by (used in) operating activities	<u>\$ (6,194)</u>	<u>\$ 308,930</u>

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

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

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Risk Management

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

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

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets (Including Intangible Assets)

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

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

Wabash County Hospital
A Component Unit of Wabash County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Contributions

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

Compensated Absences

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

Net Assets

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

Net Patient Service Revenue

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

Operating Revenue and Expenses

The Hospital's statements of revenue, expenses and changes in net assets distinguish between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services — the Hospital's principal activity.

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Nonexchange revenue, including contributions received for purposes other than capital acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

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

Income Taxes

As an essential government function of Wabash County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income and are no longer subject to U.S. federal examinations by tax authorities for years before 2008.

The LLC is not directly subject to income taxes under provisions of the Internal Revenue Code and applicable state laws. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these statements. With a few exceptions, the LLC is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2008.

Medical Malpractice Claims

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

Foundation

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

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

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During the years ended December 31, 2011 and 2010, the Foundation provided \$44,653 and \$117,543, respectively, of monetary support to the Hospital.

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

Note 2: Net Patient Service Revenue

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

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

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

Medicaid Disproportionate Share Payments. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive DSH payments. The amounts of these additional DSH funds are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. DSH payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determine that the funds will be received. The Hospital recognized \$597,670 and \$642,381 of net patient service revenue related to the DSH program for the years ended December 31, 2011 and 2010, respectively.

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

In 2011, the Indiana General Assembly passed a law allowing the usage of a Provider Assessment Fee. The State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011. The purpose of the Provider Assessment Fee would increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. Management does not believe the implementation of the proposed Provider

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Assessment Fee will have a material effect in Medicaid revenues or the financial statements, taken as a whole.

Approximately 57% and 54% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2011, \$4,144,000 of the Hospital and LLC bank balances are covered by the PDIF or FDIC, and \$119,000 of the bank balances of LLC exceed FDIC coverage limits.

Investments

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

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

Type	Fair Value	December 31, 2011	
		Maturities in Years	
		Less Than 1	1 - 5
Certificates of deposit	\$ 11,101,063	\$ 8,598,046	\$ 2,503,017
Money market mutual funds	166,115	166,115	—
Agency bonds	537,958	116,533	421,425
Restricted cash , property escrow	<u>805,265</u>	<u>805,265</u>	<u>—</u>
	<u>\$ 12,610,401</u>	<u>\$ 9,685,959</u>	<u>\$ 2,924,442</u>

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Type	Fair Value	December 31, 2010	
		Maturities in Years	
		Less Than 1	1 - 5
Certificates of deposit	\$ 11,260,959	\$ 8,852,345	\$ 2,408,614
Money market mutual funds	6,360	6,360	—
Agency bonds	<u>426,320</u>	<u>—</u>	<u>426,320</u>
	<u>\$ 11,693,639</u>	<u>\$ 8,858,705</u>	<u>\$ 2,834,934</u>

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's investment policy does not address credit risk.

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

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

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	\$ 3,782,337	\$ 5,380,650
Investments	<u>12,610,401</u>	<u>11,693,639</u>
	<u>\$ 16,392,738</u>	<u>\$ 17,074,289</u>

Included in the following balance sheets captions:

	2011	2010
Cash and cash equivalents	\$ 3,782,337	\$ 5,380,650
Short-term investments	8,855,782	8,833,794
Restricted cash and investments, current	830,177	24,912
Noncurrent investments	<u>2,924,442</u>	<u>2,834,933</u>
	<u>\$ 16,392,738</u>	<u>\$ 17,074,289</u>

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Investment Return

Investment return for the years ended December 31 consisted of:

	2011	2010
Interest, dividends and realized gains (losses)	\$ 148,855	\$ (844,339)
Net increase (decrease) in fair value of investments	<u>(19,400)</u>	<u>860,937</u>
	<u>\$ 129,455</u>	<u>\$ 16,598</u>

Note 4: Patient Accounts Receivable

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

	2011	2010
Medicare	\$ 2,173,987	\$ 1,961,975
Medicaid	164,182	179,282
Other third-party payers	2,422,885	2,533,886
Patients	<u>4,085,929</u>	<u>4,472,831</u>
	8,846,983	9,147,974
Less allowance for uncollectible accounts	<u>(2,118,000)</u>	<u>(2,735,000)</u>
	<u>\$ 6,728,983</u>	<u>\$ 6,412,974</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 475,705	\$ —	\$ —	\$ —	\$ 475,705
Land improvements	359,678	—	(44,979)	—	314,699
Buildings and leasehold improvements	16,769,761	11,163	(10,402)	45,012	16,815,534
Equipment	15,031,666	372,026	(1,741,823)	259,886	13,921,755
Construction in progress	<u>658,872</u>	<u>403,191</u>	<u>—</u>	<u>(304,898)</u>	<u>757,165</u>
	<u>33,295,682</u>	<u>786,380</u>	<u>(1,797,204)</u>	<u>—</u>	<u>32,284,858</u>

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2011					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation					
Land					
improvements	\$ 283,627	\$ 13,944	\$ (44,978)	\$ —	\$ 252,593
Buildings and leasehold improvements	14,803,457	407,227	(10,402)	—	15,200,282
Equipment	<u>11,447,132</u>	<u>1,220,850</u>	<u>(1,735,406)</u>	<u>—</u>	<u>10,932,576</u>
	<u>26,534,216</u>	<u>1,642,021</u>	<u>(1,790,786)</u>	<u>—</u>	<u>26,385,451</u>
Capital assets, net	\$ <u>6,761,466</u>	\$ <u>(855,641)</u>	\$ <u>(6,418)</u>	\$ <u>0</u>	\$ <u>5,899,407</u>

2010					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 475,705	\$ —	\$ —	\$ —	\$ 475,705
Land improvements	359,678	—	—	—	359,678
Buildings and leasehold improvements	16,492,864	6,050	(8,625)	279,472	16,769,761
Equipment	13,382,025	455,706	(69,422)	1,263,357	15,031,666
Construction in progress	<u>687,956</u>	<u>1,513,745</u>	<u>—</u>	<u>(1,542,829)</u>	<u>658,872</u>
	<u>31,398,228</u>	<u>1,975,501</u>	<u>(78,047)</u>	<u>—</u>	<u>33,295,682</u>
Less accumulated depreciation					
Land					
improvements	267,707	15,920	—	—	283,627
Buildings and leasehold improvements	14,356,491	447,245	(279)	—	14,803,457
Equipment	<u>10,275,749</u>	<u>1,240,803</u>	<u>(69,422)</u>	<u>—</u>	<u>11,447,132</u>
	<u>24,899,947</u>	<u>1,703,968</u>	<u>(69,701)</u>	<u>—</u>	<u>26,534,216</u>
Capital assets, net	\$ <u>6,498,281</u>	\$ <u>271,533</u>	\$ <u>(8,346)</u>	\$ <u>0</u>	\$ <u>6,761,466</u>

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Note 6: Employee Health Claims

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

Activity in the Hospital's accrued employee health claims liability during 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 310,663	\$ 310,663
Current year claims incurred and changes in estimates for claims incurred in prior years	3,307,425	2,795,424
Claims and expenses paid	<u>(3,171,825)</u>	<u>(2,795,424)</u>
Balance, end of year	\$ <u>446,263</u>	\$ <u>310,663</u>

Note 7: Restricted and Designated Net Assets

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

	<u>2011</u>	<u>2010</u>
Specific operating activities		
Scholarship Leon Ribley	\$ <u>24,912</u>	\$ <u>24,912</u>

At December 31, 2011 and 2010, approximately \$6,442,000 and \$6,386,000, respectively, of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these net assets for other purposes.

Note 8: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$1,210,010 and \$770,292 for 2011 and 2010, respectively.

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Note 9: Operating Leases

Noncancellable operating leases for medical equipment and satellite facilities expire in various years through 2029. These leases generally contain renewal options for periods ranging from one to five years and require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals. Rent expense for the years ended December 31, 2011 and 2010, was \$526,315 and \$495,881, respectively.

Future minimum lease payments at December 31, 2011, were:

2012	\$ 351,434
2013	326,107
2014	135,548
2015	78,000
2016	78,000
Thereafter	<u>175,500</u>
Future minimum lease payments	<u>\$ 1,144,589</u>

Note 10: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by Hospital personnel. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contributions made by plan members were \$510,772 and \$472,981 while the Hospital made contributions of \$636,544 and \$738,139 during 2011 and 2010, respectively.

Note 11: Postemployment Health Care Plan

Plan Description

The Hospital offers a group health insurance plan (Plan) to former employees with 20 years or more of service who are at least 62 years of age and not eligible for Medicare benefits or other medical benefits. Eleven former employees were participating in this plan on December 31, 2011. The Hospital pays a portion of the cost of this plan for participants.

Effective January 1, 2010, Plan terms were amended. Former employees previously included in the Plan under the prior terms with 20 years or more of service who are at least 55 years of age and not eligible for Medicare benefits or other medical benefits were grandfathered into the amended plan.

Funding Policy

The contribution requirements of Plan members and the Hospital are established and may be amended by the governing body of the Hospital. The postemployment health care benefits are

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funded on a pay-as-you-go basis. The Hospital funds on a cash basis as benefits are paid. For 2011, Plan members receiving benefits contributed \$39,000 of the total premiums, through their required contribution (depending on policy selected) of \$234 to \$257 per month for retiree-only coverage and \$442 to \$488 for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

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

	2011	2010
Annual required contribution	\$ 186,077	\$ 165,836
Interest on net OPEB obligation	1,871	1,641
Adjustment to annual required contribution	<u>(2,754)</u>	<u>(2,367)</u>
Annual OPEB cost (expense)	185,194	165,110
Contributions made	<u>(146,511)</u>	<u>(159,359)</u>
Increase in net OPEB obligation	38,683	5,751
Net OPEB obligation, beginning of year	<u>46,767</u>	<u>41,016</u>
Net OPEB obligation, end of year	\$ <u>85,450</u>	\$ <u>46,767</u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011, 2010 and 2009 are as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 207,620	80	\$ 41,016
December 31, 2010	165,110	97	46,767
December 31, 2011	185,194	79	85,450

Funded Status and Funding Progress

As of December 31, 2011 and 2010, the Actuarial Accrued Liability (AAL) was \$1,839,636 and \$1,977,400, respectively. No assets have been segregated and restricted to provide postretirement benefits within the definition of Plan Assets under GASB Statement No. 45. The covered payroll (annual payroll of active employees covered by the Plan) was \$15,571,156 and \$14,454,790, and the ratio of the UAAL to the covered payroll was 12% and 14% for the years ended December 31, 2011 and 2010, respectively.

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

Actuarial Methods and Assumptions

Benefit obligations are computed using the projected unit credit method. Benefits are attributed to service based on the Plan's benefit eligibility provisions. The beginning of the attribution period is the date of hire and the end is the full eligibility date. The unfunded actuarial accrual liability is amortized over a 30-year closed period level dollar amounts. Cumulative gains and losses are amortized over the same 30-year period as other UAAL. Other assumptions for both the 2011 and 2010 projections are as follows:

- Discount Rate: 4.00%
- Eligibility: Age 55 with 15 years of service until January 1, 2010, and then age 62 with 20 years of service
- Mortality basis: IRC 1.430(h) Annuitant and Nonannuitant tables (sex distinct)
- Inflation: 5% in 2011; 10% graded down to 5% over 5 years in 2010
- Morbidity: Average claim cost age weighted 2% per year
- Election: 100% of participants will elect coverage at retirement
- Retirement:

Age	2011	2010
62	30.0%	30.0%
63	40.0	40.0
64	45.0	45.0
65	100.0	35.0
66	100.0	35.0
67	100.0	25.0
68	100.0	35.0
69	100.0	50.0
70	100.0	100.0

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Turnover:

Age	2011	2010
20	15.0%	15.0%
25	11.3	11.3
30	7.5	7.5
35	6.0	6.0
40	4.5	4.5
45	3.0	3.0
50	1.5	1.5
55	0.0	0.0

Note 12: Related Party Transactions

Included among the Hospital's and Foundation's directors and trustees are volunteers from the business, financial and professional community. During the year, cash and/or temporary investments were maintained in banks with which directors were associated. The total Hospital cash and/or investments maintained at these banks were approximately \$7,267,000 and \$6,416,000 at December 31, 2011 and 2010, respectively. Additionally, the Foundation cash and/or investments maintained at these banks were approximately \$478,000 and \$426,000 at December 31, 2011 and 2010, respectively.

Note 13: Wabash County Hospital Foundation, Inc.

Financial Statements

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

Investments and Investment Return

Investments at December 31 consist of the following:

	2011	2010
Fixed income mutual funds	\$ 66,173	\$ 86,136
Equity mutual funds	128,828	103,509
Money market mutual funds	1,345	51
Certificate of deposit	<u>131,860</u>	<u>130,844</u>
	<u>\$ 328,206</u>	<u>\$ 320,540</u>

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	2011	2010
Interest in assets at Community Foundation of Wabash County	\$ <u>471,229</u>	\$ <u>463,865</u>

Total investment return is comprised of the following:

	2011	2010
Interest and dividend income	\$ 13,737	\$ 8,860
Return on assets held at Community Foundation of Wabash County	(22,635)	28,329
Net realized and unrealized gain (loss) on investments reported at fair value	<u>(876)</u>	<u>11,077</u>
	\$ <u>(9,774)</u>	\$ <u>48,266</u>

Interest in Assets at Community Foundation of Wabash County

The Foundation established an endowment fund by transferring assets to the Community Foundation of Wabash County. At the time of the transfer, the Foundation granted variance power to the Community Foundation of Wabash County. The Foundation is to receive the interest annually, but none of the principal. The cumulative amount of the retained interest included in the statements of financial position was \$471,229 and \$463,865 at December 31, 2011 and 2010, respectively.

Net Assets

Temporarily Restricted Net Assets

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

	2011	2010
Critical care	\$ 9,628	\$ 9,628
Cardiac rehabilitation	18,876	18,389
Charity for patients	483	615
Oncology	20,576	16,892
Home health care	71,979	74,078
Nutritional care	4,573	4,945
Skilled nursing care	3,098	3,173
Hospice	159,557	176,742
Prevention care/education	5,931	—
Recycling program	1,772	1,772
United Way HHC	3,084	4,190
Employee support committee	7,160	7,911
Building fund	16,275	16,275
Diabetes fund	18,030	18,737
Employee crisis fund	20,871	17,578

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	2011	2010
Respiratory therapy	\$ 11,698	\$ 1,998
Mammogram charity	6,021	5,057
Acute care center	5,267	5,132
Disaster preparedness fund	3,486	9,513
Emergency fund	22,695	—
Physician education	1,617	1,442
Employee vision	580	992
Harvest for health	1,376	4,192
Women's Center	3,179	3,179
Other hospital-based programs	<u>106,171</u>	<u>59,823</u>
	<u>\$ 523,983</u>	<u>\$ 462,253</u>

Net Assets Released from Restrictions

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

	2011	2010
Critical care	\$ —	\$ 693
Cardiac rehabilitation	313	—
Home health care	30,064	1,185
Hospice	23,551	36,672
Prevention care/education	7,361	6,097
United Way HHC	9,246	4,735
Employee support committee	4,253	2,299
Employee crisis fund	2,500	2,500
Respiratory therapy	300	8,850
Mammogram charity	5,971	5,999
Disaster preparedness fund	18,762	18,190
Emergency fund	10,000	8,848
Employee vision	412	820
Harvest for health	3,400	1,628
Other hospital-based programs	<u>15,536</u>	<u>131,314</u>
	<u>\$ 131,669</u>	<u>\$ 229,830</u>

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Disclosures About Fair Value of Assets and Liabilities

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

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

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The Foundation has no liabilities measured at fair value on a recurring basis. Additionally, the Foundation has no assets or liabilities measured at fair value on a nonrecurring basis.

Investments

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

Interest in Assets at Community Foundation of Wabash County

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

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The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

		2011			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value				
Investments					
Fixed income mutual funds					
Intermediate-term bond funds	\$ 32,934	\$ 32,934	\$ —	\$ —	
Inflation-protected bond funds	33,239	33,239	—	—	
Equity mutual funds					
Moderate allocation funds	28,252	28,252	—	—	
Short term funds	26,985	26,985	—	—	
Large value funds	14,767	14,767	—	—	
World allocation funds	58,824	58,824	—	—	
Money market mutual funds	1,345	1,345	—	—	
Interest in assets at					
Community Foundation of Wabash County	471,229	—	471,229	—	

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		2010			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value					
Investments					
Fixed income mutual funds					
Intermediate-term bond funds	\$ 55,155	\$ 55,155	\$ —	\$ —	
Inflation-protected bond funds	30,981	30,981	—	—	
Equity mutual funds					
Moderate allocation funds	43,548	43,548	—	—	
Large growth fund	8,943	8,943	—	—	
Short term funds	26,021	26,021	—	—	
Large value funds	13,795	13,795	—	—	
World allocation funds	11,202	11,202	—	—	
Money market mutual funds	51	51	—	—	
Interest in assets at					
Community Foundation of Wabash County					
	463,865	—	463,865	—	

Note 14: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential

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claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Malpractice Claims

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

Current Economic Conditions

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

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

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

Note 15: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Supplemental Information

Wabash County Hospital
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Schedule of Funding Progress
Year Ended December 31, 2011

Wabash County Hospital Post-retirement Medical Benefit Plan is a single-employer defined benefit plan administered by Wabash County Hospital. Please refer to Note 11 for more detailed information.

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Actuarial Valuation Date	December 31, 2011	December 31, 2009	December 31, 2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	\$ 1,839,636	\$ 1,977,400	\$ 1,994,692
Actuarial value of assets	<u>—</u>	<u>—</u>	<u>—</u>
Total Unfunded Actuarial Liability	<u>\$ 1,839,636</u>	<u>\$ 1,977,400</u>	<u>\$ 1,994,692</u>
Funded Ratio	.00%	.00%	.00%
Annual Covered Payroll	\$ 15,571,156	\$ 14,454,790	\$ 13,987,557
Ratio of Unfunded Actuarial Liability to Covered Payroll	11.81%	13.80%	14.26%
Participant Summary			
Active employees	250	346	339
Retirees	<u>11</u>	<u>16</u>	<u>16</u>
	<u>261</u>	<u>362</u>	<u>355</u>
Actuarial Assumptions			
UAAL amortization method	Level % of pay	Level % of pay	Level % of pay
UAAL amortization period, closed/open	30 years, closed	30 years, closed	30 years, closed
Discount rate	4.00%	4.00%	4.00%