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April 2, 2014

Board of Directors  
Wabash County Hospital  
710 N. East Street, P.O. Box 548  
Wabash, IN 46992-0548

We have reviewed the audit report prepared by BKD, LLP, Independent Public Accountants, for the period January 1, 2012 to December 31, 2012. 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, 2012 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**  
Auditor's Report and Financial Statements  
December 31, 2012 and 2011



**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**December 31, 2012 and 2011**

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## Independent Auditor's 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 Wabash County, as of and for the years ended December 31, 2012 and 2011, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Wabash County Hospital Foundation, Inc., a component unit included in the financial statements, were not audited in accordance with *Government Auditing Standards*.

***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, 2012 and 2011, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension 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***

Fort Wayne, Indiana  
June 24, 2013

# **Wabash County Hospital**

## **A Component Unit of Wabash County, Indiana**

### **Management's Discussion and Analysis**

#### **December 31, 2012**

#### ***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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

Cash and investments of the Hospital increased in 2012 by \$40,374 or 0.3%. Cash and investments of the Hospital decreased in 2011 by \$681,551 or 4.0%.

The Hospital's net position increased by \$984,281 or 3.5% and decreased by \$18,994 or 0.1% in 2012 and 2011, respectively.

The Hospital reported an operating income of \$696,892 and a loss of \$(130,017) in 2012 and 2011.

## **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 position; 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 Position***

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 position 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 position and changes in it. The Hospital's total net position, 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 position 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, 2012**

***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 Position***

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$984,281 or 3.5% in 2012 over 2011 and decreased by \$18,994 or 0.1% in 2011 over 2010, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 6,799,882	\$ 6,728,983	\$ 6,412,974
Other current assets	16,893,499	15,364,615	15,438,101
Capital assets, net	7,541,673	5,899,407	6,761,466
Other noncurrent assets	<u>2,067,518</u>	<u>3,224,442</u>	<u>3,134,933</u>
Total assets	<u>\$ 33,302,572</u>	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>
<b>Liabilities</b>	<u>\$ 3,781,196</u>	<u>\$ 2,680,352</u>	<u>\$ 3,191,385</u>
<b>Net Position</b>			
Net investment in capital assets	7,541,673	5,899,407	6,761,466
Restricted expendable	24,912	24,912	24,912
Unrestricted	21,795,384	22,505,919	21,633,927
Restricted, nonexpendable	<u>159,407</u>	<u>106,857</u>	<u>135,784</u>
Total net position	<u>29,521,376</u>	<u>28,537,095</u>	<u>28,556,089</u>
Total liabilities and net position	<u>\$ 33,302,572</u>	<u>\$ 31,217,447</u>	<u>\$ 31,747,474</u>

The Hospital controls a majority interest in a physician joint venture, Wabash MRI, LLC. A distribution of \$11,000 and \$40,180 was paid on the noncontrolling interest stock, which is included in restricted, nonexpendable net position, in 2012 and 2011, respectively.

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Management's Discussion and Analysis**  
**December 31, 2012**

***Operating Results and Changes in the Hospital's Net Position***

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

In 2012, the Hospital's net position increased by \$984,281 or 3.5%, as shown in Tables 1 and 2. This increase is due primarily to increases in volume and net reimbursement rates. In 2011, net position decreased by \$18,994 or 0.1%.

**Table 2: Operating Results and Changes in Net Position**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenue</b>			
Net patient service revenue	\$ 39,362,735	\$ 36,633,444	\$ 33,489,260
Other operating revenue	<u>1,341,300</u>	<u>694,872</u>	<u>573,351</u>
Total operating revenue	<u>40,704,035</u>	<u>37,328,316</u>	<u>34,062,611</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	21,921,948	21,110,379	19,331,785
Purchased services and professional fees	6,123,755	5,554,677	4,811,639
Depreciation and amortization	1,599,641	1,642,021	1,703,968
Other operating expenses	<u>10,361,799</u>	<u>9,151,256</u>	<u>8,786,203</u>
Total operating expenses	<u>40,007,143</u>	<u>37,458,333</u>	<u>34,633,595</u>
<b>Operating Income (Loss)</b>	<u>696,892</u>	<u>(130,017)</u>	<u>(570,984)</u>
<b>Nonoperating Revenue (Expenses)</b>			
Investment return	86,748	129,455	16,598
Interest expense	—	—	(27,095)
Other nonoperating revenue and expense, net	<u>11,559</u>	<u>(22,905)</u>	<u>(3,872)</u>
Total nonoperating revenue (expenses)	98,307	106,550	(14,369)
Capital gifts	200,082	44,653	117,543
Distributions to noncontrolling investors	<u>(11,000)</u>	<u>(40,180)</u>	<u>(38,332)</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 984,281</u>	<u>\$ (18,994)</u>	<u>\$ (506,142)</u>

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Management's Discussion and Analysis**  
**December 31, 2012**

***Operating Income (Loss)***

The first component of the overall change in the Hospital's net position is its operating income (loss); generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2012 and 2011, the Hospital reported operating income and operating loss, respectively.

Operating results for 2012 increased by \$826,909 or 636% when compared to 2011. The primary component of the increased operating income is an increase in net patient service revenue and achievement of meeting meaningful use under the electronic health records incentive program for both Medicare and Medicaid.

Operating results for 2011 increased by \$440,967 or 78% when compared to 2010, due primarily to increases in net patient service revenue.

***Nonoperating Revenue and Expenses***

Nonoperating revenue and expenses consist primarily of interest income and expense, investment earnings and losses and other revenue and expenses. The investment return decreased \$42,707 or 33% in 2012 from 2011 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 2012.

***Capital Assets***

At the end of 2012, the Hospital had \$7,541,673 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements. In 2012, the Hospital purchased new capital assets totaling \$3,241,907.

**Wabash County Hospital Foundation**

In 2012, there were no significant changes with the Foundation's net position or changes in net position compared to 2011.

**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, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,352,233	\$ 3,782,337
Short-term investments	8,213,449	8,855,782
Restricted cash and investments, current	24,912	830,177
Patient accounts receivable, net of allowances of \$2,704,000 and \$2,118,000	6,799,882	6,728,983
Other receivables	1,178,424	236,063
Estimated amount due from third-party payers	—	570,403
Supplies	923,845	890,608
Prepaid expenses and other	200,636	199,245
Total current assets	23,693,381	22,093,598
<b>Noncurrent Cash and Investments</b>	1,842,518	2,924,442
<b>Capital Assets, Net</b>	7,541,673	5,899,407
<b>Other Assets</b>	225,000	300,000
Total assets	\$ 33,302,572	\$ 31,217,447
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,094,477	\$ 684,930
Salaries and wages payable	1,521,649	1,463,709
Health insurance claims payable	446,263	446,263
Estimated amounts due to third-party payers	501,136	—
Other	115,621	—
Total current liabilities	3,679,146	2,594,902
<b>Other Long-Term Liabilities</b>	102,050	85,450
Total liabilities	3,781,196	2,680,352
<b>Net Position</b>		
Net investment in capital assets	7,541,673	5,899,407
Restricted, expendable for specific operating activities	24,912	24,912
Unrestricted	21,795,384	22,505,919
Restricted, nonexpendable	159,407	106,857
Total net position	29,521,376	28,537,095
Total liabilities and net position	\$ 33,302,572	\$ 31,217,447

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Wabash County Hospital Foundation, Inc.**  
**Statements of Financial Position**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 231,612	\$ 310,808
Investments	361,825	328,206
Interest in assets at Community Foundation of Wabash County	530,163	471,229
Total assets	\$ 1,123,600	\$ 1,110,243
<b>Net Assets</b>		
Unrestricted	\$ 669,195	\$ 586,260
Temporarily restricted	454,405	523,983
Total net assets	\$ 1,123,600	\$ 1,110,243

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Statements of Revenue, Expenses and Changes in Net Position**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Revenue</b>		
Net patient service revenue, net of provision for uncollectible accounts of \$2,906,720 and \$2,245,097	\$ 39,362,735	\$ 36,633,444
Other	1,341,300	694,872
Total operating revenue	40,704,035	37,328,316
<b>Operating Expenses</b>		
Salaries and wages	15,946,900	15,571,156
Employee benefits	5,975,048	5,539,223
Drugs	1,897,274	2,123,791
Food	303,105	343,343
Utilities	638,137	695,125
Medical/surgical supplies	3,285,961	2,700,282
Minor equipment	158,554	99,789
Other expenses	1,854,721	1,051,443
Other supplies	387,814	399,707
Dues/subscriptions	136,123	122,704
Travel and continuing education	99,383	120,188
Rental expense	539,966	526,315
Professional fees	6,123,755	5,554,677
Repairs and maintenance	1,060,761	968,569
Depreciation and amortization	1,599,641	1,642,021
Total operating expenses	40,007,143	37,458,333
<b>Operating Income (Loss)</b>	<b>696,892</b>	<b>(130,017)</b>
<b>Nonoperating Revenue (Expenses)</b>		
Investment return	86,748	129,455
Other	11,559	(22,905)
Total nonoperating revenue (expenses)	98,307	106,550
<b>Excess (Deficiency) of Revenue Over Expenses</b>	<b>795,199</b>	<b>(23,467)</b>
<b>Capital Gifts</b>	<b>200,082</b>	<b>44,653</b>
<b>Less: Distributions to Noncontrolling Interests</b>	<b>(11,000)</b>	<b>(40,180)</b>
<b>Increase (Decrease) in Net Position</b>	<b>984,281</b>	<b>(18,994)</b>
<b>Net Position, Beginning of Year</b>	<b>28,537,095</b>	<b>28,556,089</b>
<b>Net Position, End of Year</b>	<b>\$ 29,521,376</b>	<b>\$ 28,537,095</b>

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Wabash County Hospital Foundation, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue, Gains and Other Support</b>			
Contributions	\$ 75,856	\$ 122,985	\$ 198,841
Fund raising	—	138,604	138,604
Investment return	14,955	—	14,955
Return on assets at Community Foundation of Wabash County	38,433	—	38,433
Net assets released from restrictions	<u>331,167</u>	<u>(331,167)</u>	<u>0</u>
Total revenue, gains and other support	460,411	(69,578)	390,833
<b>Expenses</b>			
Program services	<u>377,476</u>	<u>—</u>	<u>377,476</u>
<b>Change in Net Assets</b>	82,935	(69,578)	13,357
<b>Net Assets, Beginning of Year</b>	<u>586,260</u>	<u>523,983</u>	<u>1,110,243</u>
<b>Net Assets, End of Year</b>	<u>\$ 669,195</u>	<u>\$ 454,405</u>	<u>\$ 1,123,600</u>

See Notes to Financial Statements

<b>2011</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 47,693	\$ 105,873	\$ 153,566
—	87,526	87,526
12,861	—	12,861
(22,635)	—	(22,635)
<u>131,669</u>	<u>(131,669)</u>	<u>0</u>
169,588	61,730	231,318
<u>158,897</u>	<u>—</u>	<u>158,897</u>
10,691	61,730	72,421
<u>575,569</u>	<u>462,253</u>	<u>1,037,822</u>
<u>\$ 586,260</u>	<u>\$ 523,983</u>	<u>\$ 1,110,243</u>

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 39,421,014	\$ 34,819,933
Payments to suppliers and contractors	(16,035,635)	(14,636,730)
Payments to employees	(21,731,787)	(20,890,687)
Other receipts, net	<u>1,341,300</u>	<u>701,290</u>
Net cash provided by (used in) operating activities	<u>2,994,892</u>	<u>(6,194)</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(3,241,907)	(786,380)
Payment of distributions to noncontrolling interests	<u>(11,000)</u>	<u>(40,180)</u>
Net cash used in capital and related financing activities	<u>(3,252,907)</u>	<u>(826,560)</u>
<b>Investing Activities</b>		
Investment income	86,748	129,455
Purchase of investments	(75,743)	(111,497)
Deposit to restricted property escrow	805,265	(805,265)
Proceeds from sale of investments	1,800,000	—
Other nonoperating revenue	<u>211,641</u>	<u>21,748</u>
Net cash provided by (used in) investing activities	<u>2,827,911</u>	<u>(765,559)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,569,896	(1,598,313)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,782,337</u>	<u>5,380,650</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 6,352,233</u>	<u>\$ 3,782,337</u>
<b>Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
<b>Operating Income (Loss)</b>	\$ 696,892	\$ (130,017)
Depreciation and amortization	1,599,641	1,642,021
Loss on disposal of capital assets	—	6,418
Provision for uncollectible accounts	2,906,720	2,245,097
Changes in operating assets and liabilities		
Patient accounts receivable	(2,977,619)	(2,561,106)
Accounts payable and accrued expenses	467,487	164,684
Estimated third-party payer settlements	1,071,539	(1,420,403)
Other assets and liabilities	<u>(769,768)</u>	<u>47,112</u>
Net cash provided by (used in) operating activities	<u>\$ 2,994,892</u>	<u>\$ (6,194)</u>

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

During the year ended December 31, 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

During the year ended December 31, 2012, the Hospital adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. GASB No. 63 has been applied retrospectively, by reclassifying certain 2011 financial statement line items to conform with the presentation requirements of the standard.

***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

**Wabash County Hospital**  
**A Component Unit of Wabash County, Indiana**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

***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

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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

**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) is 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 Position**

Net position of the Hospital is classified in four components. Net investment in capital assets consists 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 position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Restricted, nonexpendable net position represents noncontrolling interest capital and noncapital assets less liabilities owned by entities unrelated to the Hospital. Unrestricted net position represents the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets, restricted expendable or restricted, nonexpendable.

**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.

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***Operating Revenue and Expenses***

The Hospital's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services — the Hospital's principal activity. Nonexchange revenue, including contributions received for purposes other than capital acquisition, 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. Charges excluded from revenue under the Hospital's charity care policy were \$1,915,383 and \$1,210,010 for 2012 and 2011, respectively.

***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 2009.

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 2009.

***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.

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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.

During the years ended December 31, 2012 and 2011, the Foundation provided \$200,082 and \$44,653, 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.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$730,000, which is included in other operating revenue in the statement of revenues, expenses and changes in net position.

**Note 2: Net Patient Service Revenue**

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

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

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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 it is reasonably determinable that the funds will be received. The Hospital recognized \$242,502 and \$597,670 of net patient service revenue related to the DSH program for the years ended December 31, 2012 and 2011, 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.

Approximately 52% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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.

In 2011, 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, which was approved by CMS in 2012. The effect of the Provider Assessment Fee on reimbursement is to 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. For the year ended December 31, 2012, the Hospital paid Provider Assessment Fees of approximately \$905,000, and received payments from the program of approximately \$1,144,000, yielding a net increase to 2012 revenue in excess of expenses of approximately \$239,000. Provider Assessment Fee expense is included within other expenses and additional reimbursements received from the program are included in net patient service revenue on the 2012 statement of revenue, expenses and changes in net position.

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.

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**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, 2012, \$6,163,000 of the Hospital and LLC bank balances are covered by the PDIF or FDIC, and \$352,000 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, 2012	
		Maturities in Years	
		Less Than 1	1 - 5
Certificates of deposit	\$ 9,845,584	\$ 8,003,066	\$ 1,842,518
Money market mutual funds	29,470	29,470	—
U.S. agency bonds	200,215	200,215	—
Restricted cash, property escrow	<u>5,610</u>	<u>5,610</u>	<u>—</u>
	<u>\$ 10,080,879</u>	<u>\$ 8,238,361</u>	<u>\$ 1,842,518</u>
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	—
U.S. 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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*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:

	<b>2012</b>	<b>2011</b>
Carrying value		
Deposits	\$ 6,352,233	\$ 3,782,337
Investments	<u>10,080,879</u>	<u>12,610,401</u>
	<u>\$ 16,433,112</u>	<u>\$ 16,392,738</u>

Included in the following balance sheets captions:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 6,352,233	\$ 3,782,337
Short-term investments	8,213,449	8,855,782
Restricted cash and investments, current	24,912	830,177
Noncurrent investments	<u>1,842,518</u>	<u>2,924,442</u>
	<u>\$ 16,433,112</u>	<u>\$ 16,392,738</u>

**Investment Return**

Investment return for the years ended December 31 consisted of:

	<b>2012</b>	<b>2011</b>
Interest, dividends and realized gains	\$ 86,748	\$ 148,855
Net decrease in fair value of investments	<u>—</u>	<u>(19,400)</u>
	<u>\$ 86,748</u>	<u>\$ 129,455</u>

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**Note 4: Patient Accounts Receivable**

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

	<b>2012</b>	<b>2011</b>
Medicare	\$ 1,822,638	\$ 2,173,987
Medicaid	193,398	164,182
Other third-party payers	2,625,580	2,422,885
Patients	4,862,266	4,085,929
	9,503,882	8,846,983
Less allowance for uncollectible accounts	(2,704,000)	(2,118,000)
	\$ 6,799,882	\$ 6,728,983

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 475,705	\$ 819,309	\$ —	\$ —	\$ 1,295,014
Land improvements	314,699	—	—	—	314,699
Buildings and leasehold improvements	16,815,534	—	—	23,475	16,839,009
Equipment	13,921,755	142,372	(660,990)	984,736	14,387,873
Construction in progress	757,165	2,280,226	—	(1,008,211)	2,029,180
	32,284,858	3,241,907	(660,990)	—	34,865,775
Less accumulated depreciation					
Land improvements	252,593	12,895	—	—	265,488
Buildings and leasehold improvements	15,200,282	347,960	—	—	15,548,242
Equipment	10,932,576	1,238,786	(660,990)	—	11,510,372
	26,385,451	1,599,641	—	—	27,324,102
Capital assets, net	\$ 5,899,407	\$ 1,642,266	\$ 0	\$ 0	\$ 7,541,673

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	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
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>
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>

**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 2012 and 2011 is summarized as follows:

	<b>2012</b>	<b>2011</b>
Balance, beginning of year	\$ 446,263	\$ 310,663
Current year claims incurred and changes in estimates for claims incurred in prior years	3,868,537	3,307,425
Claims and expenses paid	<u>(3,868,537)</u>	<u>(3,171,825)</u>
Balance, end of year	<u>\$ 446,263</u>	<u>\$ 446,263</u>

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**Note 7: Restricted and Designated Net Position**

At December 31, restricted expendable net position was available for the following purposes:

	<b>2012</b>	<b>2011</b>
Specific operating activities		
Scholarship Leon Ribley	\$ <u>24,912</u>	\$ <u>24,912</u>

At December 31, 2012 and 2011, approximately \$6,480,000 and \$6,442,000, respectively, of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may, at its discretion, later use the net position for other purposes.

**Note 8: Operating Leases**

Noncancellable operating leases for medical equipment and satellite facilities expire in various years through 2019. 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, 2012 and 2011, was \$539,966 and \$526,315, respectively.

Future minimum lease payments at December 31, 2012, were:

2013	\$ 326,107
2014	135,548
2015	78,000
2016	78,000
2017	78,000
Thereafter	97,500
Future minimum lease payments	\$ <u>793,155</u>

**Note 9: 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 \$763,250 and \$510,772 while the Hospital made contributions of \$792,352 and \$636,544 during 2012 and 2011, respectively.

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**Note 10: 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, 2012. 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 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 \$40,000 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:

	<b>2012</b>	<b>2011</b>
Annual required contribution	\$ 187,546	\$ 186,077
Interest on net OPEB obligation	3,418	1,871
Adjustment to annual required contribution	(5,141)	(2,754)
Annual OPEB cost	185,823	185,194
Contributions made	(169,223)	(146,511)
Increase in net OPEB obligation	16,600	38,683
Net OPEB obligation, beginning of year	85,450	46,767
Net OPEB obligation, end of year	\$ 102,050	\$ 85,450

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The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, 2011 and 2010 are as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 165,110	97%	\$ 46,767
December 31, 2011	185,194	79	85,450
December 31, 2012	185,823	91	102,050

***Funded Status and Funding Progress***

As of December 31, 2012 and 2011, the Actuarial Accrued Liability (AAL) was \$1,841,714 and \$1,839,636, 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 \$15,946,900 and \$15,571,156, and the ratio of the UAAL to the covered payroll was 12% for the years ended December 31, 2012 and 2011.

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 2012 and 2011 projections are as follows:

- Discount Rate: 4.00%
- Eligibility: Age 55 with 20 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)

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- 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	
62	30.0%
63	40.0
64	45.0
65	100.0
66	100.0
67	100.0
68	100.0
69	100.0
70	100.0

- Turnover:

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

**Note 11: 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 and the Hospital's defined contribution pension plan were maintained or administered in banks with which directors were associated. The total Hospital cash and/or investments maintained at these banks were approximately \$6,500,000 and \$7,267,000 at December 31, 2012 and 2011, respectively. Additionally, the Foundation cash and/or investments maintained at these banks were approximately \$147,000 and \$478,000 at December 31, 2012 and 2011, respectively.

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**Note 12: 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:

	<b>2012</b>	<b>2011</b>
Fixed income mutual funds	\$ 39,197	\$ 66,173
Equity mutual funds	175,986	128,828
Money market mutual funds	61	1,345
Certificate of deposit	146,642	131,860
	<b>\$ 361,886</b>	<b>\$ 328,206</b>
Interest in assets at Community Foundation of Wabash County	\$ 530,163	\$ 471,229

Total investment return is comprised of the following:

	<b>2012</b>	<b>2011</b>
Interest and dividend income	\$ 7,314	\$ 13,737
Return on assets held at Community Foundation of Wabash County	38,433	(22,635)
Net realized and unrealized gain (loss) on investments reported at fair value	7,641	(876)
	<b>\$ 53,388</b>	<b>\$ (9,774)</b>

***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 \$530,163 and \$471,229 at December 31, 2012 and 2011, respectively.

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**Net Assets**

**Temporarily Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Critical care	\$ 9,628	\$ 9,628
Cardiac rehabilitation	19,147	18,876
Charity for patients	—	483
Oncology	21,356	20,576
Home health care	65,311	71,979
Nutritional care	4,390	4,573
Skilled nursing care	3,553	3,098
Hospice	120,018	159,557
Prevention care/education	6,639	5,931
Recycling program	—	1,772
United Way HHC	4,308	3,084
Employee support committee	8,443	7,160
Building fund	46,367	16,275
Diabetes fund	18,187	18,030
Employee crisis fund	24,022	20,871
Respiratory therapy	10,482	11,698
Mammogram charity	5,960	6,021
Acute care center	5,267	5,267
Disaster preparedness fund	3,975	3,486
Emergency fund	22,695	22,695
Physician education	1,842	1,617
Employee vision	580	580
Harvest for health	2,819	1,376
Women's Center	3,179	3,179
Other hospital-based programs	<u>46,237</u>	<u>106,171</u>
	<u>\$ 454,405</u>	<u>\$ 523,983</u>

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***Net Assets Released from Restrictions***

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

	<u>2012</u>	<u>2011</u>
Cardiac rehabilitation	\$ 932	\$ 313
Home health care	56	30,064
Hospice	64,490	23,551
Prevention care/education	7,292	7,361
United Way HHC	5,901	9,246
Employee support committee	1,989	4,253
Employee crisis fund	4,134	2,500
Respiratory therapy	1,316	300
Mammogram charity	4,864	5,971
Disaster preparedness fund	6,231	18,762
Emergency fund	—	10,000
Employee vision	—	412
Harvest for health	2,885	3,400
Other hospital-based programs	<u>231,077</u>	<u>15,536</u>
	<u>\$ 331,167</u>	<u>\$ 131,669</u>

***Disclosures About Fair Value of Assets and Liabilities***

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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.

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**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.

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, 2012 and 2011:

	<b>2012</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments				
Fixed income mutual funds				
Intermediate-term bond funds	\$ 26,482	\$ 26,482	\$ —	\$ —
Short-term bond funds	12,715	12,715	—	—
Equity mutual funds			—	—
Moderate allocation funds	41,690	41,690	—	—
Large value funds	16,613	16,613	—	—
Conservative allocation funds	22,965	22,965	—	—
World allocation funds	89,564	89,564	—	—
World stock funds	5,154	5,154	—	—
Money market mutual funds	61	61	—	—
Interest in assets at Community Foundation of Wabash County	530,163	—	530,163	—

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	2011			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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	—

**Note 13: 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 commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an

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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 situation continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated 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 14: Subsequent Events**

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

**Note 15: Patient Protection and Affordable Care Act**

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

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The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

## **Supplemental Information**

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**Schedule of Funding Progress**  
**Year Ended December 31, 2012**

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.

	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
Actuarial Valuation Date	December 31, 2011	December 31, 2011	December 31, 2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial accrued liability	\$ 1,841,714	\$ 1,839,636	\$ 1,977,400
Actuarial value of assets	<u>—</u>	<u>—</u>	<u>—</u>
Total Unfunded Actuarial Liability	<u>\$ 1,841,714</u>	<u>\$ 1,839,636</u>	<u>\$ 1,977,400</u>
Funded Ratio	.00%	.00%	.00%
Annual Covered Payroll	\$ 15,946,900	\$ 15,571,156	\$ 14,454,790
Ratio of Unfunded Actuarial Liability to Covered Payroll	11.55%	11.81%	13.80%
Participant Summary			
Active employees	250	250	346
Retirees	<u>11</u>	<u>11</u>	<u>16</u>
	<u>261</u>	<u>261</u>	<u>362</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%