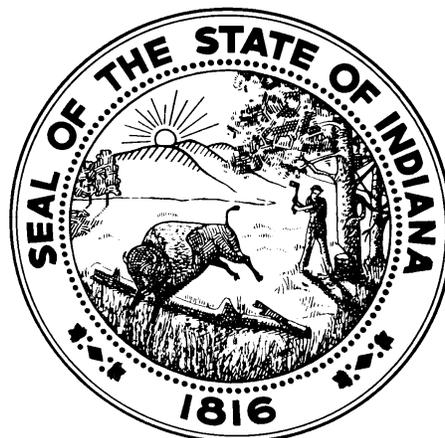


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

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

January 1, 2008 to December 31, 2008



FILED
08/03/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report	3
Basic Financial Statements:	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Changes in Net Assets	5
Statement of Cash Flows – Restricted and Unrestricted Funds	6
Notes to Financial Statements	7-16
Exit Conference	17

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Michelle Sly-Smith	01-01-08 to 12-31-09
Treasurer	Michelle Sly-Smith	01-01-08 to 12-31-09
Chairman of the Hospital Board	Steve DuPre, MD Donald Hunt	07-17-07 to 06-30-08 07-01-08 to 06-30-09
President of the Board of County Commissioners	Jim Boes	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Sullivan County Community Hospital (Hospital), and its aggregate discretely presented component unit as of and for the year ended December 31, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2008, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

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

STATE BOARD OF ACCOUNTS

July 21, 2009

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 4,264,815	\$ -	\$ 4,264,815
Home health receivables - net	148,335	-	148,335
Patient accounts receivable, net of estimated uncollectibles of \$4,046,576	2,387,800	-	2,387,800
Supplies	341,421	-	341,421
Other receivables	50,227	-	50,227
Prepaid expenses	338,861	-	338,861
Noncurrent cash and investments:			
Internally designated	10,869,462	-	10,869,462
Held by trustee for debt service	461,879	-	461,879
Capital assets:			
Land	1,180,262	9,583	1,189,845
Depreciable capital assets, net of accumulated depreciation	13,298,075	858,221	14,156,296
Construction in progress	<u>2,475</u>	<u>-</u>	<u>2,475</u>
 Total assets	 <u>\$ 33,343,612</u>	 <u>\$ 867,804</u>	 <u>\$ 34,211,416</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 550,000	\$ -	\$ 550,000
Accounts payable	357,262	-	357,262
Accounts receivable credit balances	167,805	-	167,805
Salaries payable	235,760	-	235,760
Payroll taxes and deductions	183,902	-	183,902
Accrued employee benefits	788,679	-	788,679
Accrued interest payable	16,000	-	16,000
Estimated third-party payor settlements	506,005	-	506,005
Other current liabilities	26,353	20,047	46,400
Long-term debt, net of current maturities	<u>6,255,000</u>	<u>-</u>	<u>6,255,000</u>
 Total liabilities	 <u>9,086,766</u>	 <u>20,047</u>	 <u>9,106,813</u>
Net assets:			
Invested in capital assets, net of related debt	8,844,346	867,804	9,712,150
Restricted:			
For debt service	461,879	-	461,879
Expendable for capital acquisitions	24,132	-	24,132
Unrestricted	<u>14,926,489</u>	<u>(20,047)</u>	<u>14,906,442</u>
 Total net assets	 <u>24,256,846</u>	 <u>847,757</u>	 <u>25,104,603</u>
 Total liabilities and net assets	 <u>\$ 33,343,612</u>	 <u>\$ 867,804</u>	 <u>\$ 34,211,416</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2008

	Primary Government	Discrete Component Unit	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 26,139,280	\$ -	\$ 26,139,280
Home health revenue	646,018	-	646,018
Other	<u>138,791</u>	<u>-</u>	<u>138,791</u>
 Total operating revenues	 <u>26,924,089</u>	 <u>-</u>	 <u>26,924,089</u>
Operating expenses:			
Salaries and benefits	10,849,772	-	10,849,772
Fees - physician	769,163	-	769,163
Fees - other	1,694,576	-	1,694,576
Supplies	2,170,493	-	2,170,493
Utilities	404,540	-	404,540
Repair and maintenance	647,272	-	647,272
Leases and rentals	123,901	-	123,901
Insurance	252,213	-	252,213
Bad debts	3,786,444	-	3,786,444
Other expenses	556,492	-	556,492
Depreciation and amortization	<u>1,633,714</u>	<u>-</u>	<u>1,633,714</u>
 Total operating expenses	 <u>22,888,580</u>	 <u>-</u>	 <u>22,888,580</u>
 Operating income	 <u>4,035,509</u>	 <u>-</u>	 <u>4,035,509</u>
Nonoperating revenues (expenses):			
Interest income - general	51,002	-	51,002
Interest income - funded depreciation	373,354	-	373,354
Interest income - debt service fund	7,532	-	7,532
Other income	65,810	184,461	250,271
Interest expense	(273,333)	-	(273,333)
Other expenses	<u>(13,320)</u>	<u>(322,175)</u>	<u>(335,495)</u>
 Total nonoperating revenues (expenses)	 <u>211,045</u>	 <u>(137,714)</u>	 <u>73,331</u>
 Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	 4,246,554	 (137,714)	 4,108,840
 Capital transfer in (out)	 <u>(67,280)</u>	 <u>67,280</u>	 <u>-</u>
 Increase (decrease) in net assets	 4,179,274	 (70,434)	 4,108,840
 Net assets beginning of the year	 <u>20,077,572</u>	 <u>918,191</u>	 <u>20,995,763</u>
 Net assets end of the year	 <u>\$ 24,256,846</u>	 <u>\$ 847,757</u>	 <u>\$ 25,104,603</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 25,401,462
Payments to suppliers and contractors	(6,746,603)
Payments to employees	(11,756,401)
Other receipts and payments, net	<u>(502,925)</u>
Net cash provided by operating activities	<u>6,395,533</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(1,220,000)
Interest paid on long-term debt	(265,333)
Purchase of capital assets	<u>(1,846,550)</u>
Net cash used by capital and related financing activities	<u>(3,331,883)</u>
Cash flows from investing activities:	
Interest and dividends on investments	498,094
Purchase of investments	<u>(1,633,794)</u>
Net cash used by investing activities	<u>(1,135,700)</u>
Net increase in cash and cash equivalents	1,927,950
Cash and cash equivalents at beginning of year	<u>2,798,744</u>
Cash and cash equivalents at end of year	<u>\$ 4,726,694</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 4,264,815
Restricted cash and cash equivalents	<u>461,879</u>
Total cash and cash equivalents	<u>\$ 4,726,694</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,035,509
Adjustments to reconcile operating income to net cash flows used in operating activities:	
Depreciation and amortization (\$1,633,714 and \$79,307 for the primary government and discrete component unit, respectively)	1,713,021
Provision for bad debts	1,183,925
Increase in current assets:	
Home health receivable	(70,324)
Patient accounts receivable	(641,795)
Supplies	(70,458)
Other assets	(18,732)
Prepaid expenses	(74,665)
Increase (decrease) in current liabilities:	
Accounts payable	45,127
Accounts receivable credit balances	78,408
Salaries payable	63,494
Payroll taxes and liabilities	(54,949)
Accrued employee benefits	(141,514)
Estimated third-party payor settlements	331,005
Other current liabilities	<u>17,481</u>
Net cash provided in operating activities	<u>\$ 6,395,533</u>

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Discretely Presented Component Unit

The SCCH Fitness Center, Inc., is a significant discretely presented component unit of the Hospital. A voting majority of the Center's Board is composed of members of the primary government's administration enabling the primary government to impose its will on the Center. A financial benefit/burden relationship exists between the Hospital and the Center.

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

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, 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, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Open-end mutual funds are reported at fair value.

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

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

Other investments are generally reported at fair value.

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

2. Use of Estimates

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

3. Capital Assets

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

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

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

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

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Net Assets

Net assets of the Hospital are classified in three components.

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

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

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

D. Restricted Resources

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

E. Operating Revenues and Expenses

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

F. Compensated Absences

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

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

II. Detailed Notes

A. Deposits and Investments

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Accounts Receivable

Patient accounts receivable reported as current assets by the Hospital at year end consisted of these amounts:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 3,909,838
Receivable from Medicare	1,113,821
Receivable from Medicaid	270,619
Unbilled receivables	<u>1,140,098</u>
 Total patient accounts receivable	 6,434,376
 Less allowance for uncollectible amounts	 <u>4,046,576</u>
 Patient accounts receivable, net	 <u><u>\$ 2,387,800</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,054,504	\$ 129,758	\$ 4,000	\$ 1,180,262
Construction in progress	<u>19,688</u>	<u>218,710</u>	<u>235,923</u>	<u>2,475</u>
 Total capital assets, not being depreciated	 <u>1,074,192</u>	 <u>348,468</u>	 <u>239,923</u>	 <u>1,182,737</u>
Capital assets, being depreciated:				
Land improvements	1,493,935	89,923	37,284	1,546,574
Buildings and improvements	14,704,403	486,728	1,601	15,189,530
Equipment	<u>9,312,701</u>	<u>921,431</u>	<u>70,824</u>	<u>10,163,308</u>
 Totals	 <u>25,511,039</u>	 <u>1,498,082</u>	 <u>109,709</u>	 <u>26,899,412</u>
Less accumulated depreciation for:				
Buildings and improvements	8,209,112	1,437,680	15,770	9,631,022
Equipment	<u>3,774,281</u>	<u>208,032</u>	<u>11,998</u>	<u>3,970,315</u>
 Totals	 <u>11,983,393</u>	 <u>1,645,712</u>	 <u>27,768</u>	 <u>13,601,337</u>
 Total capital assets, being depreciated, net	 <u>13,527,646</u>	 <u>(147,630)</u>	 <u>81,941</u>	 <u>13,298,075</u>
 Total primary government capital assets, net	 <u><u>\$ 14,601,838</u></u>	 <u><u>\$ 200,838</u></u>	 <u><u>\$ 321,864</u></u>	 <u><u>\$ 14,480,812</u></u>

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Discretely Presented Component Units</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Land improvements	\$ 9,583	\$ -	\$ -	\$ 9,583
Buildings and improvements	1,066,797	-	-	1,066,797
Equipment	<u>141,094</u>	<u>-</u>	<u>-</u>	<u>141,094</u>
 Totals	 <u>1,217,474</u>	 <u>-</u>	 <u>-</u>	 <u>1,217,474</u>
 Less accumulated depreciation for:				
Buildings, improvements and machinery and equipment	<u>270,363</u>	<u>79,307</u>	<u>-</u>	<u>349,670</u>
 Total discretely presented component unit capital assets, net	 <u>\$ 947,111</u>	 <u>\$ (79,307)</u>	 <u>\$ -</u>	 <u>\$ 867,804</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2008</u>	<u>Committed</u>	<u>Required Future Funding</u>
ER Module - Phase II	<u>\$ 24,750</u>	<u>\$ 2,475</u>	<u>\$ 24,750</u>	<u>\$ 22,275</u>

E. Operating Leases

The Hospital has entered into an operating lease having an initial or remaining noncancelable term exceeding one year for an electronic medication processing system (Pyxis System). Rental expenditures for this lease were \$76,837. The following is a schedule by years of future minimum rental payments as of year end:

2009	\$ 77,124
2010	77,124
2011	77,124
2012	<u>77,124</u>
 Total	 <u>\$ 308,496</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amount
1998 Indiana Health Facility Financing Authority revenue bonds	Variable	\$ 6,805,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal
2009	\$ 550,000
2010	585,000
2011	620,000
2012	655,000
2013	695,000
2014-2018	3,700,000
Total	\$ 6,805,000

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable: Indiana Health Facility Financing Authority	\$ 8,025,000	\$ -	\$ 1,220,000	\$ 6,805,000	\$ 550,000

3. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2008, are required by terms of the financing agreement between the Hospital and IHFFA:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue from operations	\$ 26,924,089
Investment income	431,888
Less:	
Expenses (excluding depreciation, amortization and interest on funded debt)	21,254,866
 Total net revenue available for debt service	 \$ 6,101,111
 Funded debt service for year	 \$ 1,493,333
 Historical debt service coverage ratio	 4.09:1

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$58,761 for 2008.

H. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

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

Internally designated:	
Funded depreciation:	
Investments	\$ 10,775,000
Accrued interest receivable	94,462
Total funded depreciation	\$ 10,869,462

I. Adjustments Included in Net Patient Service Revenue

Net patient service revenue includes an audit adjustment of \$1,590,568, which resulted from payments received pursuant to Indiana Medicaid Municipal Hospital Payment Adjustments, Medicaid DSH payments and prior year Medicare cost reports. This adjustment was originally reported by the Hospital as an extraordinary item.

IV. Other Information

A. Risk Management

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the general ledger where expenses are accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$40,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs).

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Events

In May 2009, an additional \$1,300,000 was paid to reduce the principle balance of the 1998 Indiana Health Facility Financing Authority revenue bonds.

C. Contingent Liabilities

Litigation

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

D. Postemployment Benefits

In addition to the pension benefits described in Note IV-G, the Hospital provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Hospital on or after attaining age 60 with at least 25 consecutive years of service. Currently, one retiree meets these eligibility requirements. The Hospital and retiree provide 60% and 40%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, expenditures of \$1,799 were recognized for postemployment benefits.

E. Fair Value of Financial Instruments

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

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and Cash Equivalents

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

Short-Term Investments

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

Investments

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

Accounts Payable and Accrued Expenses

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

Estimated Third-Party Payor Settlements

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

F. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2008, net patient service revenues in the accompanying statements of operations were increased by \$96,005 to reflect changes in the estimated settlements for certain prior years.

G. Pension Plan

Defined Contribution Pension Plan

Plan Description

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

Principal Financial Group
P.O. Box 8704
Wilmington DE 19899-8704
Ph. (866) 518-8969

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute up to \$16,500 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 2.5%. In addition, the Hospital is required to contribute 2% of the annual covered payroll. Employer and employee contributions to the plan were \$239,570 and \$471,772, respectively. At year end the Hospital had an accrued benefit payable to the plan of \$134,400.

SULLIVAN COUNTY COMMUNITY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2009, with Michelle Sly-Smith, Chief Executive Officer; and Alan Montella, Assistant Administrator of Finance. Our audit disclosed no material items that warrant comment at this time.